

**„Alexandru Ioan Cuza” University
Faculty of Economics and Business Administration
Doctoral School of Economics and Business Administration**

**THE ASSESSMENT OF THE SOCIAL PROTECTION SYSTEMS
IN THE CONTEXT OF THE CURRENT BUDGETARY CONSTRAINTS
- ABSTRACT OF DOCTORAL THESIS -**

**SCIENTIFIC COORDINATOR:
Ph. D. Professor Mihaela Onofrei**

**PhD CANDIDATE:
Argeşanu Nicolae Răzvan**

**Iasi
- 2013 -**

CONTENTS

INTRODUCTION.....	6
CHAPTER I. THE SOCIAL PROTECTION APPROACH FROM A SYSTEMIC PERSPECTIVE.....	9
I.1. CONCEPTUAL AND OPERATIONAL FRAME OF SOCIAL PROTECTION.....	9
I.2. TYPOLOGY OF SOCIAL PROTECTION SYSTEMS. MODELS OF SOCIAL PROTECTION.....	17
I.3. SOCIAL PROTECTION POLICY AND THEIR SUSTAINABILITY IN THE CONTEXT OF BUDGETARY CONSTRAINTS.....	26
CHAPTER II. THE SOCIAL PROTECTION ANALYSIS FROM THE PERSPECTIVE OF SOCIAL SECURITY.....	30
II.1. SOCIAL SECURITY - NARROWER ACCEPTION OF SOCIAL PROTECTION.....	30
II.2. SOCIAL SECURITY COMPONENTS (SOCIAL INSURANCES, SOCIAL ASSISTANCE).....	33
II.3. THE SOCIAL INSURANCES SYSTEM - CONTENT, ARCHITECTURE AND RECENT DEVELOPMENT OF POLICIES IN THE FIELD.....	36
II.4. CHARACTERISTICS OF THE SOCIAL ASSISTANCE SYSTEM.....	54
II.5. SOCIAL SECURITY SYSTEMS IN EUROPEAN UNION COUNTRIES IN THE CONTEXT OF INTERTEMPORAL BUDGETARY CONSTRAINTS.....	57
CHAPTER III. AGING POPULATION AND SOCIAL INSURANCES SYSTEMS ANALYSES FOR OLDER PEOPLE IN EUROPEAN UNION COUNTRIES.....	61
III.1. AGING POPULATION: A CELEBRATION AND A CHALLENGE	61
III.2. ANALYSIS OF STATISTICAL INDICATORS ON THE ADEQUACY AND SUSTAINABILITY OF PENSION SYSTEMS IN MEMBER STATES OF THE EUROPEAN UNION.....	68
III.2.1. Pension system - between adequacy and sustainability.....	69
III.2.2. Data and methodology.....	70
III.2.3. Evolution of statistical indicators on adequacy and sustainability of the pension systems in European Union member states.....	71
III.2.4. Analysis of empirical results.....	82
III.3. ROLE OF PRIVATE PENSION SYSTEMS AND THE NEED TO MONITOR THEM.....	93
III.4. CRITICAL ANALYSIS OF ROMANIAN PENSION SYSTEM.....	99
III.4.1. Current status and "historical" determinations of the public pension system.....	99
III.4.2. Pension system based on fundraising.....	107
III.4.3. The pension system in Romania between necessity and possibility.....	119
CHAPTER IV. Social protection in Romania: critical analysis.....	122
IV.1. LACK OF INSTITUTIONAL COHERENCE AND VISION OF THE SOCIAL PROTECTION SYSTEM.....	130
IV.1.1. Institutional Mapping.....	130
IV.1.2. Financing of the social protection system.....	146
IV.1.3. Cooperation and networking institutional.....	147
IV.2. INEFFICIENCY AND WASTE - CAUSES OF IMBALANCES OF WELFARE BUDGETS.....	150
IV.2.1. The labor market and the need for proactive measures.....	152
IV.2.2. Pensions reform.....	155
IV.2.3. Equity of financial transfers for social assistance	159
IV.2.4. Social assistance services / Social integration.....	165
CONCLUSIONS.....	167
BIBLIOGRAPHY.....	184
ANNEXES.....	193

KEY WORDS: social protection, social security, social insurances, public pension systems, unemployment, occupation, aging, social assistance, budgetary constraints, sustainability, adequacy, effectiveness, equity, allocative and administrative efficiency

SUMMARY

The research theme entitled “Evaluation of the Social protection systems in the context of current budget constraints”, developed under the scientific coordination of Mrs. PhD Professor Mihaela Onofrei, addresses a national and international topical issue, addressing the area of the protection "which society provides to its members through a series of public measures/actions in response to certain levels of vulnerability, risk and constraints, considered, from the social point of view, unacceptable in a certain political regime or society"¹, from a systemic approach, in the context of current budgetary constraints, of economic and social development strategies, relocation, we might say, of the accent from the ex-post approach to the preventive one, and, last but not least, the aging of the population, in correlation with other factors of influence.

By the design of the strategy we proposed the framing in a space of continuity, creating a unitary relational assembly in which is made, in parallel and successively, the transition from the theoretical-fundamental dimensions to practical applicative ones.

As actions that have been undertaken to fulfil the research-specific objectives (presentation and clarification of important concepts, integrating, governing the area of study, developing the social protection system with all its components; identification of mutations occurred in time in the evolution of social protection systems, and their current configuration in EU countries; analysis of current legal and procedural provisions in the field of social insurances from EU member states, with the purpose to identify and assess the effects, in time; identification of certain prospective cues on social protection system in Romania) we can mention the: processing and interpretation of ideas from the literature and from official documents belonging to various international development agencies responsible with the design of the economic and social policy; descriptive study of social, political and economic phenomena and processes in their status and evolution in time and space; performance of operations, reasonings, calculations of indicators and indices and their analysis.

The thesis is structured in four chapters, starting from the specific theoretical aspects, analyzing the issues of the area approached and continuing with the analysis of those components that, at the European level face serious difficulties, or at least, raise big questions, both from the perspective of reaching the objectives, as well as from the perspective of their tax sustainability, so that, in the end, the attention is focused on social protection in Romania. The

¹Norton, A., Conway, T., Foster, M., *Social Protection Concepts and Approaches: Implications for policy and practice in international development*, Overseas Development Institute, London, 2001, WP 143, p. 7.

thesis is concluded with a chapter designed for final conclusions, to which are added the studied biography and annexes.

The first chapter, entitled “**Social protection approach from a systemic perspective**” broadly presents theoretical and conceptual approaches specific to the area of manifestation of social protection, basic social models used and, last but not least, the policies of social protection and their sustainability in the context of current budget constraints.

Given that social protection is a multidimensional concept and in continuous evolution, our first challenge was to identify a common ground or, at least, a certain degree of convergence of different approaches existent in literature, but not only, regarding the scope, objectives and configuration.

A comprehensive image of what it is desired to understand by the use of the concept of social protection, especially lately, is based on a restrictive approach, in which attention is drawn upon providing a basic set of essential social rights and transfers, in cash and in kind, to insure a minimum subsistence and security income for everybody and to facilitate the effective demand for and access to essential goods and services, having as main components, social insurances and social assistance, succeeded, we might say, by the area of interventions on the labour market, whose objective, most of them, would aim the insurance of the process of training and development of human personality, meant to neutralize negative factors, which influence personality and to create favourable conditions for the assertion of the individual, but also for improving the business environment and wide, in an extremely generous sense by the component of the social services provided as part of sectorial policy.

In a simplified way of considering things and which would correspond in a greater extent to the current needs of streamline of budgetary constraints, the operating diagram of a social protection system may be regarded from the perspective of an assembly of instruments, financing mechanism and institutional arrangements, whose common objective is to contribute to a standardization of consumption, reducing/preventing poverty and promotion of human capital, with indirect implications on decisions, employees, suppliers of services and on sustainability of public finance.

In **chapter II**, entitled “**The social protection analisys from the perspective of social security**”, I made, initially, a brief overview of the concept of social security, perceived, moreover, on the one hand, as the narrowed sense of social protection, and, on the other hand, a component of the broad system of social protection. Regardless the approach, it should be noted that social security itself represents an open system, dynamic and complex, contoured under a form an assembly of laws, institutions and activities meant to ensure community or collective support to those persons found in a circumstance due to which they are deprived, temporary or permanently, of enough resources for sustenance or basic health care (unemployment, poverty,

work accidents, occupational diseases or other diseases, disability, maternity, widowhood, old age etc.) and includes the system of social insurances and the system of social assistance, where the redistributive component occupies the first phase and is focused on²: increasing access to health care for everybody, insuring income security for elderly and disabled, insuring income security for children, creating support for the unemployed and poor.

Further, by analyzing the content, architecture and recent evolution of policy from the area of social insurances and social assistance, may be drawn the following conclusions:

In the context of the high rate of budget deficits recorded and their financing difficulties/costs, systems of social security cross the period of important structure changes, characterized by a multitude of principles that differ according to the difficulties that are going to be covered, as a result of the society's evolution as a whole. There emerge a series of major trends aimed at studying various problems with which the schemes of social insurances and pensions, of protection of social insurances of unemployed and, last but not least, of funding the entire system of social protection. The effort of most European countries differs from state to state: countries which have completely reformed the system of social insurances leading to a radical change of basic pension schemes, countries which have institutionally reformed the additional statutory schemes, countries which have started the process of reform of social insurances of pensions; countries that are in the stage of negotiations and research with social partners in finding a common point in starting the reform process.

Since from the comparative analysis of costs associated to aging of the population, pensions appear as representing the most important component of social costs, as a result of the increase of the number of beneficiaries, our attention in **chapter III**, entitled “**Aging population and the social insurance systems analysis for older people in EU countries**” was oriented, for the beginning, to the presentation and analysis of certain relevant indicators for the configuration of pension schemes at the EU level, more specifically: total population, average age, life expectancy at birth, fertility rates and dependency rate of elderly population. The indicators analyzed show that in European Union member states, including Romania, there are serious demographic issues: birth and fertility rates decline, and the average age of the population is constantly increasing. In other words, population decreases and is confronted more and more with the phenomena of aging, thus exercising an increasing pressure on the budget of public pensions, that must support more and more beneficiaries in the conditions of a decreasing number of contributors. Therefore, in many states in the world, as well as in Romania, providing a decent income from the pension has become a real challenge, the weakness of the public system causing a rethinking of the scheme of association of different types of pensions in order

²International Organization of Employers, *The concept of the social protection floor*, 2011, p. 3.

to provide a comfortable/decent³ total income, or, in other words, in order to provide adequate pensions, and, in addition, sustainable and modernized⁴.

Next, I submitted to the attention and analysis the public pension systems in EU countries, both from the perspective of sustainability, as well as from the perspective of adequacy, precisely in the conditions in which most part of the studies in the field are well documented on the impact of the reforms started in the field of pensions on projected budget expenditures associated, mainly to the phenomena of aging of the population, but, their effect on the structure and level of incomes of the future pensioners is less clearly defined.

Our big challenge was to identify, understand and later explain the possible relationships existent between statistical indicators reflecting the adequacy of a system of pensions and statistical indicators “governing” the sustainability, considering that in this way we might assess the efficiency of the recent measures adopted at European level in the social field, in response to the impact of aging population, mainly from the perspective of structure and level of income of the future pensioners.

The results obtained from an analysis of correlation of the temporal variation of these indicators, including a factor analysis (analysis on main components – ACP), although, most of them seem to be identical to those obtained by OECD in 2005 and the European Institute of Romania in 2011, with few exceptions, as in those studies either the indicator public debts was not taken into consideration, either in the period analyzed this last indicator had no influence on the other indicators, did not allow us to obtain a clear image of the benefits of reform of public pension systems, especially those referring to encouraging active aging and increasing the retirement age limit, on the contrary, they suggested us that an increase of the employment rate of people aged 59-64 and an increase of the active labour duration implies an increase in the relative risk of poverty rate for people aged 65 and over. Although, this statistic connection was explained in a study performed by OECD in 2005 by the fact that a small replacement rate acts as an incentive to stay as much as possible on the labour market, and a small level of the replacement rate, is, in turn, part of a pension system where the risk of poverty in old age is high, our hypothesis was that many of the indicators included in the analysis contain similar information, so that the results are distorted. Thus, to eliminate the risk that explaining factors contain similar information which distort the real statistic relationship between relative variations of the indicators analyzed we developed two models of simple linear regression where both the

³ Concluding the first European semester of economic policy coordination: Guidance for national policies in 2011-2012, Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions COM(2011) 400 final, EC, Brussels, 7.6.2011, http://ec.europa.eu/europe2020/pdf/communication_en.pdf

⁴http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/omc_social_inclusion_and_social_protection/pension_strand

dependent and the independent variable were formed by the combination of certain factors submitted to analysis.

According to the first model of simple linear regression, validated with a significant probability of 99%, where for the dependent variable we proposed a so-called “indicator of inadequacy” (calculated as the ratio between the risk of poverty for people aged 65 and over and aggregate replacement ratio) and for the explaining factor we built an indicator we called „demographic indicator” (emphasizes the extent to which the negative effect of a high dependency rate concomitant with a high life expectancy exceeds the beneficial effect of a higher public debt) the increase of dependency rate and life expectancy accompanied by the gradual reduction of public debt have a negative impact on the relative risk of poverty rate for people aged 65 and over.

According to the second model of simple linear regression, also validated with a significant probability of 99% and where for the dependent variable “indicator of inadequacy” we calculated a different explaining factor which we called “rebalancing indicator ”(calculated as ratio between the employment rate of people aged 59-64 years and active occupational duration and demographic indicator), the decrease of the public debt accompanied by an increase of the employment rate for people aged 59-64 years and the active occupational duration may have a beneficial effect on the relative risk of poverty rate for people aged 65 and over, provided that it exceeds the negative effect of an increasing dependency rate combined with a constantly higher expectancy rate.

In the statistic analysis we refer to a rebalancing indicator precisely to draw attention upon the possibility and need, in the same time, of substitution, in a certain extent, of the beneficial effect of the increase of the public debt on the poverty risk for older people with the one of increasing the employment rate of people in the group age of 55-64 years, accompanied by an increase of the active occupational duration which would contribute to promoting the increase and avoiding the imposition of excessive tasks on the future generations by resorting to extraordinary budget resources. This does not mean neglecting the interests of the youth in favour of the interests of the elderly, but, more likely, finding a proper balance between these by drafting structured, coherent and active occupational social policies, on medium and long term, for all age groups..

Precisely in the conditions where it is expected that private pension systems play a much important part in ensuring the proper character of pensions in the future, our attention was also drawn upon those uncertainties and risks (longevity risk, inflation risk and last but not least, financial risk - the risk of investment and management risk) which may affect the level of the future “promised” pensions. In this context, we would like to insist on the need for strict monitoring on the development of private pension funds and the potential effects on fitness.

Regarding the pension system in our country, we analyzed the outer long or short term restrictions (demographic aging, labour migration, low levels of social protection expenditure, financial crisis, dimension of informal occupation associated with undeclared real incomes, certain political-economic decisions: wage cuts in the public sector, introduction of Pylon 2 of pensions, introduction of minimal guaranteed social pensions, introduction in the public sector of pensions of the beneficiaries from the system of defence, public order and national security) and on the other hand, the so-called barriers of development and improvement from inside (legislative volatility, poor promotion of inter-generational equity, portability, relatively large difference between the effective and standard retirement age, low transparency and poor control of pensions funds management), the public pension system and we highlighted the main features of private pension schemes.

In **chapter IV** entitled “**Social protection in Romania – critical analysis**” we did not want to perform a negative critic of the social protection system in our country, but an identification of certain shortcomings or failures for which we consider that there are possibilities to improve. Findings are also influenced by the latest legislative amendments, particularly those caused by the financial and economic crisis and austerity measures / reforms, especially readjustment and transformation of public administration institutions.

Broadly, we insist on the need of an integrating approach of social protection measures which may improve the selection of beneficiaries and rational supply of services and social benefits; interoperability between social protection programs, the transition from a basic system for monitoring and evaluation to a performance management system aimed at: identifying the problem areas and duly modification of practices; identifying the main causes of problems, development of action plans and tracking progress; reducing or eliminating funding for programs with poor results, identifying those legislative provisions requiring to be changed; identifying and disseminating successful practices, staff motivation, recognition and rewarding agencies, offices and people with good results; efficient resource allocation, prioritization and development of plans and objectives.

The chapter of **final conclusions** includes personal ideas and considerations, described, moreover, partially and through this summary, that, may be useful for decision makers in substantiation of social policy decisions in the area of social protection, generally, and social security, especially, and in wording new parametric or structural reforms to achieve a more efficient and effective allocation of resources to guarantee a minimum safety to individuals in a society increasingly uncertain.