A public opinion survey and empirical and theoretical review indicated that the Albanian economic system is strongly biased in favour of capital.

Building a more cohesive and healthy socio-economic system requires an in-depth review of policies, practices and institutions.

Public debate should be focused on how the present economic system can be reformed towards a more balanced economic system considering social interests.
The Economy for All programme is a Friedrich Ebert Foundation (FES) initiative launched to re-imagine the role of economic and social stakeholders, aiming to lay the foundations for the creation of a new socio-economic model.

This FES initiative was largely based on the expertise of an Expert Group, the views of whom you hold in your hands.

The FES would like to thank the working group members of the Economy for All programme - Adrian Civici, Daniel Guçe, Irena Beqiraj, Ornela Liperi and Selami Xhepa - for their strong commitment and valuable contribution in proposing a new socio-economic model for Albania.
# Contents

1. **EXECUTIVE SUMMARY** ................................................................. 5  
2. **METHODOLOGY** ....................................................................... 7  
   2.1 Questionnaire ............................................................................ 7  
   2.2 Sampling .................................................................................. 8  
3. **ECONOMIC GROWTH, POVERTY AND INEQUALITY** .................................. 11  
4. **INDIVIDUALISM AND SOCIAL RESPONSIBILITY** ............ 20  
5. **ROLE OF THE STATE IN REDUCING GROWING PRECARIETY** ......................................................... 23  
6. **PUBLIC OPINION ON REGIONALISATION AND INTEGRATION PROCESSES** ................................................................. 29  
7. **GENERAL EVALUATION AND RECOMMENDATIONS TO POLICYMAKERS** ............................................................ 33  

**REFERENCES** .................................................................................... 36  

**ANNEX 1: QUESTIONNAIRE** .............................................................. 37  

**ANNEX 2: SUMMARY OF THE QUESTIONNAIRE’S RESPONSES** ................................................................. 39
The purpose of this study is to analyse public perception of the socio-economic system, the relationship between the state and market, the evolution of the social value system over three decades of transition towards a democratic system and market economy, and public opinion on the EU integration processes of the country.

Over the last four decades, Albania has taken huge efforts towards building a free and democratic society based on the rule of law and the free market economy. On the one hand, the progress to date is visible and has been achieved mainly thanks to private initiatives and the hard work of the country's citizens. It is supported by transformational reform processes, undertaken by the political leadership of the country. On the other hand, market failures are inherent in any society with functioning democratic institutions. Therefore, policies, practices and institutions need to be reviewed in order to build a more cohesive and healthier society, through steady and quality economic growth and development. For a long time, a "new development economics" has been the subject of much debate in Albania. However, this debate has been limited to the sectoral aspect of growth – an approach that is largely positivist and aims to improve the growth rates through resource allocation in certain sectors (exports, for example). This research paper proposes an alternative approach in guiding the public debate: how the current economic system can be reformed for a more balanced economic system in terms of social interests – it proposes a normative approach.

This study is based on the premise that the economic development of the country has generated great social inequality and that a cohesive and harmonious society is the key to both increasing the quality of life in the country and guaranteeing the long-term sustainability of the socio-economic system itself. To test this premise, the research project team prepared a questionnaire and performed empirical and theoretical analyses.

The main findings of this study are the following:

- The majority of respondents, 66% of the total (two in three), think that the unequal distribution of income and wealth in Albania is an increasing concern for social cohesion. Likewise, 39% believe that the wealth of the rich was not accumulated through honest work.

- A large minority (43.50%) believe that current policies pay more attention to the interests of the private sector and little attention to the interests of the population. Thus, the system is considered not to be in equilibrium, as it favours capital.

- Although more than 40% of the population believes that people should take more responsibility for themselves, only 30% are in favour of a society based on individualism. Public opinion largely supports the idea that state intervention is needed to protect jobs at risk and invest in education, health and infrastructure.

- Citizens believe that the risk of a decline in the standard of living is currently higher than in the past generations and that the risk for the next generation will be even higher. So, the perceived risk is increasing.

- Citizens strongly support the integration processes of the country and the majority (over 65%) find the effects of free trade agreements to be positive. Despite deepening integration, the citizens think that the local politicians should continue to have control over the country's legislation.

- All of the above conclusions are equally shared among different groups of the population. According to data disaggregated by gender, age group, income level and place of residence, no significant differences were
observed among the different sub-groups. Between the top and the bottom age groups of the population pyramid, i.e., between the 18-29 age group and over 60 age group, only a slight difference is observed. This may be attributed to differences in the economic and social contexts in which they were raised as well as to differences in the systems of values of the two different systems.

Paying proper attention to public opinion and the lessons learned from empirical evidence, this study offers some recommendations on necessary reforms to policymakers in order to avoid low growth rates and productivity alongside high inequality and environmental degradation in the economy of tomorrow. The recommended policy interventions are grouped into two categories:

(1) Policies controlling processes that produce inequality and non-inclusive economic growth;

(2) Redistribution policies correcting the unequal income distribution.

While the first group of reforms aims at improving economic governance so that economic outcomes are generated under fair processes abiding by the principles of a competitive market, the reforms of the second group aim at creating mechanisms to correct the deformations that may result in the distribution of the national income.
To collect complete and accurate information, we took a mixed method research approach, combining qualitative and quantitative data.

The quantitative part of the study was focused on a targeted questionnaire, sent to the sampled population across 12 Albanian districts. The prepared questionnaire was distributed and filled in using the Google Form application.

Quantitative data collection

In order to ensure representativeness and collect quantitative data from businesses located in each selected municipality, a descriptive cross-sectional study method was used. This enabled us to collect information at a given point in time about the existence and impact of policies in relation to opinions about Albania’s economic situation and regional integration. This research method was selected because it offers several advantages:

- it can be quickly conducted;
- all variables can be collected at once;
- multiple outcomes can be assessed at once;
- prevalence of all factors can be measured;
- it is suitable for collecting descriptive data;
- it can be used for further research.

The data collected though the respondents’ responses were further qualitatively and quantitatively processed and analysed using data analysis software, SPSS and MAXQDA.

Qualitative research method: document review and analysis of socio-economic conditions and implementation of economic policies

In order to validate and check the questionnaires’ quantitative findings, we used the qualitative part of the report, following an analysis of all official documents and information at the local and central levels, considering the key topics addressed in this report. The data collected with the abovementioned methods were largely used for the interpretation of the questionnaire’s outcomes.

2.1 QUESTIONNAIRE

Questionnaires with multiple-choice questions (including the demographic/geographical and administrative questions) were used in this study. Their aim was not only to test and collect data about the topic, but to validate the responses using control questions included in the questionnaire so as to have more accurate responses.

The respondents were randomly selected by the interviewers. 13 interviewers were involved in the distribution of this questionnaire, one for each district of Albania (with the exception of Tirana, where, due to the large sample size, it was necessary to hire 2 interviewers). The sampling guidelines were prepared based on INSTAT (Albania’s state statistics bureau) data on population, gender and geographical distribution in each district, and the interviewers were asked to follow them rigorously.

Several workshops were organized with the interviewers, so they could become familiar with the questionnaire before starting with the interview stage. The interviewers were trained on how to communicate with the respondents and the technological means for conducting the questionnaire.

To control and check the interview process, all interviewers had to:

- share their live location at the time the interviews were taking place;
- hand in semi-formal reports after every 1 or 2 hours of field work, formal daily reports, and final summary report;
- for each respondent who consented to being identified, the name, surname and telephone number was kept in the records, just in case a call-back would be necessary.
2.2 SAMPLING

To calculate the sample size, we used Cochran’s formula:

\[
n_0 = \frac{z^2 p (1-p)}{e^2}
\]

where \(z\) is the confidence interval, \(p\) is the proportion of the population which has the attribute that we want to study, and \(e\) is the margin of error for a population size \(N\), resulting in the following equation:

\[
n = \frac{n_0}{1 + \frac{n_0 - 1}{N}}
\]

The above formula is used to calculate the sample size for a 95% confidence level (with a 5% margin of error) to be statistically significant.

Based on INSTAT’s annual population data by district, the following sample size was selected for each district by taking into consideration the population size as well as gender, age and geographical distribution ratio for each district.

The objective of this study is to highlight public opinions and perceptions on how the socio-economic system operates and on the integration processes, while taking into consideration variables such as: gender, age group, income level, employment status, additional incomes from remittances, and rural versus urban status. The distribution of the respondents by these characteristics is shown in the following Charts.

Chart 1. Distribution of respondents by gender

<table>
<thead>
<tr>
<th>District</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Berat</td>
<td>30</td>
<td>28</td>
<td>58</td>
</tr>
<tr>
<td>Dibra</td>
<td>28</td>
<td>26</td>
<td>54</td>
</tr>
<tr>
<td>Durrës</td>
<td>65</td>
<td>63</td>
<td>128</td>
</tr>
<tr>
<td>Elbasan</td>
<td>59</td>
<td>61</td>
<td>120</td>
</tr>
<tr>
<td>Fier</td>
<td>65</td>
<td>63</td>
<td>128</td>
</tr>
<tr>
<td>Gjirokastra</td>
<td>15</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>Korça</td>
<td>45</td>
<td>47</td>
<td>92</td>
</tr>
<tr>
<td>Kukës</td>
<td>20</td>
<td>18</td>
<td>38</td>
</tr>
<tr>
<td>Lezha</td>
<td>29</td>
<td>29</td>
<td>58</td>
</tr>
<tr>
<td>Shkodra</td>
<td>44</td>
<td>50</td>
<td>94</td>
</tr>
<tr>
<td>Tirana</td>
<td>190</td>
<td>197</td>
<td>387</td>
</tr>
<tr>
<td>Vlora</td>
<td>41</td>
<td>40</td>
<td>81</td>
</tr>
<tr>
<td>Total</td>
<td>631</td>
<td>637</td>
<td>1,268</td>
</tr>
</tbody>
</table>

1 Full statistical data are available to interested parties and can be provided by addressing the FES office in Tirana.
Chart 2. Distribution of respondents by age group

<table>
<thead>
<tr>
<th>Age</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29</td>
<td>30.40%</td>
</tr>
<tr>
<td>30-44</td>
<td>29.80%</td>
</tr>
<tr>
<td>45-59</td>
<td>26.40%</td>
</tr>
<tr>
<td>Over 60</td>
<td>13.40%</td>
</tr>
</tbody>
</table>

Chart 3. Distribution of respondents by employment status

<table>
<thead>
<tr>
<th>Employment status</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>To be employed soon</td>
<td>4.20%</td>
</tr>
<tr>
<td>Employed</td>
<td>59.30%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>36.50%</td>
</tr>
</tbody>
</table>
Chart 4. Distribution of respondents by income level

<table>
<thead>
<tr>
<th>Household income per month:</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR 1000-2000 per month</td>
<td>1.20%</td>
<td>12.70%</td>
<td>86.10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>up to EUR 1000 per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>over EUR 2000 per month</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chart 5. Distribution of respondents by additional income from remittances

<table>
<thead>
<tr>
<th>Additional financial resources from remittances:</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>74.40%</td>
<td>5.50%</td>
<td>20.10%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Used to have, not anymore</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Chart 6. Distribution of respondents by place of residence

<table>
<thead>
<tr>
<th>Place of residence:</th>
<th>0%</th>
<th>10%</th>
<th>20%</th>
<th>30%</th>
<th>40%</th>
<th>50%</th>
<th>60%</th>
<th>70%</th>
<th>80%</th>
<th>90%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village</td>
<td>22.60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town</td>
<td>77.20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Town, village</td>
<td></td>
<td>0.20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Accelerating the economic growth process is one of the crucial policy issues of economic theory. The reason behind this is that economic growth is theorized to condition the economic development of a country and thereafter the standard of living. However, economic growth is not always translated into economic development and a higher standard of living. The cases in the history of economy where economic growth has not led to economic and social progress are not negligible and this is due to the quality of such growth.

Thus, it is important for a country to enjoy not only economic growth but also quality economic growth, a growth that generates benefits for all social groups, narrows social inequalities and alleviates poverty. Inequality and poverty have been considered the twin curse often blamed not only for contributing to the deterioration of health indicators but also for undermining democratic governance, lowering society’s trust and satisfaction, and even becoming the cause for the increasing obesity of the population.

Economic inequality problems in a society have proved to be serious and long term. When we look back on history, we note that increasing inequalities have led to the fall of developed nations. Here, we can mention the historic developments of Amsterdam in the 18th century and Venice in the 17th century. A historian would even argue that, once created, inequalities can be redressed only with a strong and violent social shock. In fact, Great Britain’s experience during the First Industrial Revolution suggests a less pessimistic scenario: a non-evolutionary method can be employed to reform institutions and build a more cohesive society. Reviewing the historical experiences of developed countries helped one of the undisputed scientific personalities in the field of inequality and poverty, Anthony Atkinson, come to the conclusion that income inequality fluctuates erratically, following sequences of episodes rather than well-defined long-term trends (Atkinson, 1997).

Economic inequality, in particular extreme inequality, can result in chronic deprivation of human rights. Several studies demonstrate that it is one of the main causes obstructing the functioning of the rule of law because it favours the capture of the state and decision-making processes. This is why economic inequality impedes the economic development of countries and becomes a source of civil unrest and social instabilities.

Inequality has become a central subject in today’s global political debate. There is an ever-increasing belief that the poor are left behind by the rich, the old by the young people, the suburbs by metropolitan-areas, uneducated individuals by those who have received good education, poor countries by rich countries. The socio-economic gap between nations, regions and social groups is deepening.

This problem is also widely encountered in our country. Growing inequality and poverty are at the forefront of the debate in our society. This study also confirmed that there is a clear public perception that wealth and income distribution has created huge inequalities and that this poses a serious concern for social cohesion.

About 70% of respondents “strongly agree” that “uneven distribution of income and wealth in Albania is an increasing problem for the social cohesion of the population”. The responses provided do not show any significant differences by gender, income level, age group or place of residence. Such a strong, shared perception of asymmetrical income and wealth distribution is indeed alarming.

---

2 Anne Case, Angus Deaton, 2020, Deaths of Despair and the Future of Capitalism, Princeton University Press

In this case, we question whether the problem of poverty and inequality is simply an issue of perceptions or is it a reality that is supported by empirical data? How did inequality emerge in Albania?

Table 1.
**Gini coefficient index, 1996–2017**

<table>
<thead>
<tr>
<th>Years</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>27.0</td>
</tr>
<tr>
<td>2002</td>
<td>31.7</td>
</tr>
<tr>
<td>2005</td>
<td>30.6</td>
</tr>
<tr>
<td>2008</td>
<td>30.0</td>
</tr>
<tr>
<td>2012</td>
<td>29.0</td>
</tr>
<tr>
<td>2014</td>
<td>34.6</td>
</tr>
<tr>
<td>2015</td>
<td>32.9</td>
</tr>
<tr>
<td>2016</td>
<td>33.7</td>
</tr>
<tr>
<td>2017</td>
<td>33.2</td>
</tr>
</tbody>
</table>

Source: World Bank database

Inequalities have increased since the beginning of the political transition period when Albania was an egalitarian country with negligible inequalities. In particular, the wealth creation process led to the emergence of social groups polarized in terms of wealth concentration. Estimated by the differences in consumption between the bottom and the top quantiles and deciles in income distribution, it seems that such difference has remained stable at the top levels for a relatively long period of time. Likewise, the Gini coefficient index that measures income inequality has a high value, at about 33%.

The data of this table indicate that 10% of the population receive about 25% of the national generated income, while 20% of the population receives about 41% of total income. Meanwhile, the 10% of the population at the bottom of pyramid receives only about 3% of the income, or about 8 times less than the 10% at the top of the pyramid. About 20% of the population at the bottom of pyramid receives only 7.5% of the national income generated throughout a year.

From a comparative point of view, this value of the Gini coefficient index ranks Albania as having a high level of inequality compared to countries such as Great Britain or Spain. The problem in Albania becomes even more acute as social contrasts become very noticeable in terms of widespread poverty.
The above evidence supports public perception of an increase in social inequality that is undermining social cohesion.

Here another question can be raised: **Does increasing economic growth translate into a higher standard of living for the individual?** In other words, if the country achieves a high rate of economic growth, would it contribute to poverty reduction by creating employment opportunities and economic activity for the individual? According to the questionnaire’s outcome, **one in three people believe that economic growth generates benefits for society**, which is a very positive indicator for the growth quality.

In particular, the 30-44 age group is more optimistic, while

**Chart 8.**
**To what extent do you agree or disagree with the following statement on current socio-economic relations in Albania:**

Source: Inequalities in the 21st century, Institute for Fiscal Studies, May 2019
the two extreme age groups, those aged 18–24 and over 60, are less optimistic. This is attributable to the fact that individuals in the 30-44 age group manage to maximize their income either because of their level of education or because of the experiences they have acquired over the years. On the contrary, the income curve for the young age group, who have just entered the labour market, starts at a low point and goes up as they approach the 30-year-old age group, while the income curve for the over 60-year-old age group goes down as they prepare to exit the labour market.

Beyond such differences among age groups, the overall perception is considered positive. This positive role of economic growth in the society’s welfare is also supported by the empirical data. A simple graphical representation of economic growth over the years and decreasing/increasing number of poor populations reveals a negative correlation with a correlation coefficient -0.12, i.e., economic growth periods are associated with reduction of poverty in the country. The trends are particularly evident after 2002, when public policies aiming to address these issues were implemented for the first time in the country through a poverty reduction strategy in line with the United Nations Millennium Development Goals (MDG).

The fact that the decrease in economic growth rates is accompanied by an increase in poverty, as shown in Chart 9 above, is quite concerning. This means that to reach poverty reduction targets, the country must achieve a high growth rate. According to a World Bank study on employment in the Balkan countries, economic growth translates into more jobs and income when the growth rate is above 6%.

Poverty remains a very widespread phenomenon in our society and in such circumstances, social inequality becomes seriously concerning. As Chart 10 illustrates, during the first decade of transition, although the highest rates of economic growth were achieved, poverty levels were also very high, with more than 50% of the population living in poverty (using the World Bank poverty line). The European Bank for Reconstruction and Development dedicated its Annual Transition Report 1999 to the equity policy of transition and how the losses and benefits were shared as a result of the transformational policies of the first decade. This report reaches the conclusion that, “There can be no doubt that the transition has been associated with a heavy social burden on the people of many countries in the region.” The concern with widespread poverty required specific policy treatment and with the support of the World Bank and the IMF, Albania drafted a Poverty Reduction Strategy. The efforts turned out to be successful in significantly reducing the alarming level of poverty. Although the poverty indicator appears to have been stable at somewhere between 35%-40% for a long period of time, economic growth has failed to translate into a better standard of living for more citizens. According to the most recent World Bank

---

5 For the entire period from 1993 to 2000, the average annual economic growth was about 9.6%, without taking into consideration the decrease with 10% of GDP in 1997 due to social unrest and civil conflict.
forecast in 2018, poverty was observed in 38.7% of the population, or in other words, 487,000 people lived in poverty. The recent negative economic shocks caused by the earthquake of 26 November 2019 and the COVID-19 pandemic have multiplied the number of families living on the edge of poverty. Based on World Bank estimates, poverty in Albania could increase to 44% of the population, on an annual basis, bringing the number of people living in poverty up to 115,000 - 230,000 people.

In summary, the poverty problem in Albania is not merely a matter of public perception, it is both a widespread phenomenon and an increasing concern as a result of serious negative shocks to the country’s economic and social life in the last two years.

In addition to these typical variables affecting economic inequality in a transition economy, the problem of inequality is also related to the way wealth is created through liberalization reforms and the privatization of public property. This topic has been much debated, especially in ‘90s when the above-mentioned processes were implemented. The public perception, as confirmed by questionnaires, underlines that it was an unfair process.

In particular, **taxation policies** and accounting rules have supported the concentration of assets and economic activities, while not favouring investments in technological improvement and human capital within a firm. For example, the profit tax exemption in case of reinvestment of profits, which is frequently applied by our fiscal policies, was not accompanied by the condition that reinvestment should be made within the firm and in activities related to the transfer of more advanced technology, adoption of environmental-friendly patents and technology passports, investment in the workforce by improving the working conditions, raise of wages and remunerations, training and qualifications of personnel, implementation of modern production management and organization methods and trading systems, etc. By not imposing similar conditions, the firms have used profits before tax for the acquisition of other businesses, at

---

significantly lower costs than their competitors.

In the same way, bank lending has also been concentrated in a few big businesses, which, through such favours, have been stimulated to become even bigger. This type of policy has also favoured the concentration of bank loans. By increasing their collateral value and having more available liquidity from their existing activities, these businesses have attracted even more credit lending. Such concentration showed its serious shortcomings when the problem of non-performing credits became the most concerning issue for the banking system in 2010 and later on. According to the media reports, only 30 large private businesses were responsible for almost two-thirds of total problematic credit.

This case illustrates how the increase of inequality through concentration of wealth and income negatively affects a country’s financial system and economic growth as well as at the microeconomic level by raising the prices of goods and services and lowering quality standards and other trading rules.

Likewise, progressive taxation policies that theoretically are expected to mitigate inequality in the distribution of national income were applied only for employees – that part of the population that is living on a salary income. High-income earners (or the rich, as they are called in informal language) are actually receiving business generated annual income through dividends, capital gains, etc. The dividend is annual personal income for this category because throughout the year they live on transfers from normal business activity, considered part of the company’s costs. In fact, the dividend is subject to a tax rate (8%) much more favourable than the tax on salary income, where the maximum marginal tax rate is 23%.

Several researchers (see, for example, Piketty, Saez and Stantcheva, 2014) argue that the decline in the maximum marginal tax rate is accompanied by the increase in income generated by the top 1%.

So, the taxation policies manage to correct only the final results of income distribution. They cannot correct the processes that generate inequality. This means that if the corporations have dominant positions in the market, and consequently can set prices higher than they would in the conditions of a competitive market, then these unfair profits would lead to an ever-increasing concentration of inequality in the long run. For this reason, the legislative process should put in place a healthier equilibrium between the state and the market and between capital and labour because the current system is widely perceived as capital-biased until now.

Therefore, a comprehensive review of legislation by sector would be a useful starting point. Also, a review of debtor-creditor relations that are currently considered to favour the creditors, or better said, safeguarding the bankers and disadvantaging the industry, could be equally necessary.

Looking deeper into the causes of poverty, we see that besides problems of generally weak economic growth, poverty is closely related to the wage level. Although there is less on Balkan countries, the literature on the relationship between wage levels, inequality and poverty is quite rich. An IMF study (2016) on the Balkan countries underlined that income level has a significant effect on both poverty and inequality. Although the impact of unemployment affects this causal relationship, research should be focused on wage dynamics, as the main source of income for the Albanian households. We should also stress that the phenomenon of poverty is widely present among the employed as well. So, poverty and lack of income are not only a result of unemployment, but also a result of poor employment quality. At the end of 2019, the average wage in the Albanian economy was about 30% lower than the region’s lowest average wage (Kosovo) and about 46% lower than the region’s highest wage (Montenegro).

### Box 1: Employment structure by wage level

After the first quarantine, the dynamics of wage sector indicate that the proportion of low-wage employees among all waged employees has increased.

Based on INSTAT data (2020), the share of persons earning an ALL 30,000-salary makes 38.7% of total employees in the third quarter of 2020, up from 37.1% in the second quarter.

Meanwhile, the high-wage groups are in decline. The data show that the group of employees earning a salary of ALL 40,000 to ALL 50,000 occupy 11.4% of the total employees, down from 11.7% of the total in the second quarter.

Additionally, the proportion of high-wage groups to all waged employees also fell. Employees earning a salary of ALL 50,000 to ALL 60,000 suffered a decrease by 0.9 percentage points. Those earning a salary of ALL 60,000 to ALL 95,000 displayed a decrease by 0.5 percentage point and those earning a salary of over ALL 120,000 occupied 4.5% of the total employees in the third quarter from 4.6% in the second quarter.

The data on wages show a pattern in which the Albanian economy is developing, where nearly 40% of employees earn the a low salary, about ALL 300,000 per month, while 26.8% of employees earn only the minimum salary of ALL 26,000 per month.

Source: Monitor Magazine, 2020

In this case, we raise the following question: does the low wage level reflect a low level of productivity in the economy? To answer this question, we have calculated the average annual productivity and average wage increase by sector of economy, based on INSTAT data. In our analysis, productivity is defined as the ratio of the added value that the sector produces to the number of employees in that sector.

---


8 Zsoka Koczan, 2016, Being Poor, Feeling Poorer: Inequality, Poverty and Poverty Perceptions in the Western Balkans, IMF Working Paper WP/16/01.
The data in Table 4 reveal significant differences between wage increase and productivity. As can be easily seen in many sectors of the economy, wage increases are strongly motivated based purely on productivity growth. The fact that productivity has experienced a significantly increase means that the economic benefits from productivity increase have benefited capital gains.

A concerning question resulting from this analysis is whether such a high level of poverty and social inequality can pose a threat to the stability of the capitalist system and to democracy itself. It is not the unfair inequality per se, but the processes that generate it.

As indicated by public perception, only 2.5% of the population believes that the system is performing well in terms of national income distribution. This might not pose a threat to the system if the public believed that this wealth was meritoriously created and that the market has rewarded the risk-takers and individuals who have invested more in increasing their professional skills. Our public opinion survey showed that almost half of the population (45%) believe in the principle of individualism and the fact that society works better when the individual thinks initially of him/herself. This means that if the system works on merit, inequalities are generally acceptable by society.

However, this is not the case in Albania. Only 8.8% of respondents, i.e., less than 1 in 10 people, agree with the statement that the rich have created their wealth on merit. Different age groups have a slightly different perception among them. The young age group (18–24 years old) is more tolerant towards the wealth creation process compared to those over 60 years old. Eleven percent of the 18–24 age group respondents and only 5% of the over 60 age group respondents said that they agreed with this statement. These relatively small differences can also be attributed to differences in the mentality between the two different political systems under which these age groups have created their values and beliefs systems.
Despite these differences, the conclusion is quite evident and clear: making money without making sacrifices and breaking a sweat is wrong and the inequality in wealth created in such a manner is unfair.

This public perception of unfairness in wealth creation certainly undermines the public’s trust in democracy and the market economy. According to the European Bank for Reconstruction and Development’s (EBRD) Life in Transition Report (2016), only 50% of respondents in Albania prefer democracy and market economy over other forms of political and social systems. However, 31% of them think that an authoritarian regime and a planned economy would provide better solutions for society. According to this report, Albanian citizens seem to be less supportive of democracy and the market economy than European countries such as Germany.

The public perceives the state more as an instrument in the hands of business rather than as an actor genuinely safeguarding the balance between labour and capital. More than 75% of respondents believe that the state is mostly in favour of capital. This perception is equally noted among all categories of the population interviewed.

As underlined in the above analyses, wage and benefit-sharing policies in the economy, taxation policies and the capture of policymaking by interest groups, the wide spread of public-private partnership contracts in the provision of public services through suspicious procurement practices, etc., are the main factors that have contributed to such biased perception about the role of the state.
Chart 11.
To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

Albanian citizens ranking among the richest, i.e., those earning much and owning property, have usually earned such wealth.

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>8.8%</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>16.2%</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>36%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>39%</td>
</tr>
</tbody>
</table>

Chart 12.
To what extent do you agree or disagree with the following statement on policy measures with an impact on socio-economic relations in the country:

Policies pay much attention to the private sector interests and little attention to population's interests.

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>8.4%</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>15.9%</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>43.5%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>32.2%</td>
</tr>
</tbody>
</table>
4

INDIVIDUALISM AND SOCIAL RESPONSIBILITY

A portion of the questions in our survey attempt to gather data on public perceptions of the relationship between individualism and social solidarity. This is a crucial issue when a society has to select the model it is ready and willing to support. A society that values individualism more than social solidarity will certainly demand less intervention from the state and vice-versa. In essence, this choice should be considered in the context of the relationship between market forces and the regulatory role of the state in economic life.

It could happen to anyone to become poor as a result of circumstances beyond their control. The idea that the government should provide a safety net is not a recent one. The 17th century political philosopher Thomas Hobbes (1963/1651, p. 303-4) argued that, “And whereas many men, by accident, become unable to maintain themselves by their labor, they ought not to be left to the charity of private persons, but to be provided for, as far forth as the necessities of nature require, by the laws of the Republic.” The theory of redistribution as a way to maximize the sum of utilities in society by maximizing the welfare of the worst-off persons has received considerable attention, in particular by famous utilitarian philosophers and others, such as John Rawls with his book, A Theory of Justice (1971). Likewise, among libertarian philosophers, there is a case where state interference in the redistribution of income is acceptable. This argument was introduced, for example, by American philosopher Robert Nozick in his book, Anarchy, State and Utopia (1974), published in response to Rawls' work. Nozick argues that if wealth was unfairly accumulated, then intervening with appropriate policies to ensure that wealth creation processes are fair should be strongly supported. In this study, the idea of state intervention in income redistribution is supported by both ideological approaches because, as argued earlier, public perceptions show that the wealth creation process itself was unfair.

After a decades-long experience with totalitarianism, where the state was considered an organic part of society and the individual existed only to serve society, Albania crossed the Rubicon and overnight came to rank among those societies that see the state as a mechanical creature that individuals create to serve individuals themselves. This transformation in the nature of the system should have been followed by a change in the values and beliefs of the individual. However, as this report shows, even after three decades public perceptions continue to maintain a social approach to individualism. Only one in five people believe that societies function better based on individualism. This indicates a profound

Chart 13.
To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>20.9%</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>24.1%</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>25.3%</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>29.7%</td>
</tr>
</tbody>
</table>
distrust in the self and the importance of the state in the eyes of the public. A less extreme interpretation suggests the population is divided quite symmetrically: 45% of respondents tend to favour individualism and 55% are inclined towards the state’s social approach.

It is interesting to note the difference among young people, where only 17% of them responded that they strongly agree with a society based on individualism, compared to 27% of the “over 60-year-old” population, an age group grown and educated during the communist regime, who agree with this statement. In the theory of public finances, this scepticism towards individualism among young age groups can be explained by the uncertainty that young people have about their future and/or the low degree of social mobility. However, the difference between the age groups becomes smaller when the interview outcomes aggregate the responses “strongly agree” and “somewhat agree”.

This topic is relevant for public policy-making, in particular taxation and public expenditure policy, and for the regulation of the markets’ functioning. For this reason, we explore in more detail the economic factors that may have influenced such perceptions. Of course, issues of cultural heritage have had a primary role, but we are going to look further into the economic nature of the causes as well.

After the fall of the communist system, a set of liberalization reforms and pro-market programmes were introduced. However, the financial crisis of 2008 created a new momentum, calling for a critical reconsideration of market-state relations.

Acemoglu (2009) lists three intellectual misconceptions among economic academics of the last decade, which are outlined below in brief:

1. First is the belief that the era of macroeconomic volatility had come to an end and that the world had entered the “Great Moderation” era, an era where business cycles had become very smooth. Financial innovation, diversifying the investment risk among a multitude of stakeholders, had fuelled the overexpansion of money and credits in the economy. While this would serve as an “insurance policy” for companies and consumers, the interdependence among the system actors would, at the same time, increase, making the system more robust against economic shocks. What was neglected is the fact that the system had become much more vulnerable to certain low-probability events, known in technical language as “fat-tails”, since this interdependence creates potential domino effects among financial institutions, companies and households.

2. Second is the notion that the capitalist economy can live in an institution-less vacuum, where the markets are merely monitoring the economy’s behaviour and self-correction, equating free markets with unregulated markets. After the first decade of the transition period in the former communist countries, an emphasis was placed on the importance and role of institutions. However, this emphasis had a limited perspective, focusing on how the lack of institutions had shaped the paradigm that poor countries had remained poor without probing their nature, how they served as prosperity generators and guarantors in developed nations, and how they should evolve in the context of developing economic relations. It is worth highlighting the need to develop a theory of market transactions that is more in tune with their institutional and regulatory foundations, a new theory of regulation of both firms and financial markets.

Third is the very notion that large corporations - Lehman Brothers, Enron, Bear Sterns, etc. - had accumulated sufficient “reputation capital” to monitor themselves. We had also put too much trust in the idea that monitoring of large firms by big auditing companies (the Andersen) was sufficiently reliable. A series of mergers and acquisitions (M&A) led to the creation of a small number of powerful corporations in the finance area and consequently overexposed the system to risks. The “too big to fail” syndrome further weakened it to an unprecedented level. The economic system created incentives that encouraged corporations to compromise their integrity and sacrifice their quality. Their punishment (allowing bankruptcy) would create a dangerous vacuum for society and would be politically costly. This situation reveals a need to review the theory of reputation capital in the context of the general equilibrium theory.

However, increasing banking/financial system fragility has made the whole economic system even more vulnerable, risking the complete meltdown of the system itself. The “too big to fail” and “too big to jail” monstrosities are totally incompatible with liberal thinkers’, from J.S. Mill and Smith to today’s advocates of neoliberalism, concepts of economic freedom and freedom of transactions.

The current system has created the conditions for some powerful individuals (bankers, bureaucrats, academics, businessmen) to play with it, while citizens pay the price for this game, as Nassim Taleb (Antifragility) argues. He underlines the fact that, “At no point in history have so many non-risk-takers, that is individuals with no personal exposure, exerted so much control over society.” Even Greenspan, who had earlier defended the theory of market freedom and deregulation efficiency, was then forced to walk back his position, stating: “I made a mistake in presuming that the self-interest of organizations, specifically banks and others, was such that they were best capable of protecting their own shareholders.”


10 Financial Times, October 2008: I Made a Mistake, Alan Greenspan
The forces of globalization and the technological revolution have created new interdependencies, interconnections and complexities that have the potential to destabilize our techno-socio-economic environmental system on a global scale (Helbing, 2013)\textsuperscript{11}. It is therefore critical to find new approaches to stabilize global networks and counterbalance the systemic instability.

As shown above, according to public perception the principles of social equality and fairness, the foundations for building a socio-economic system, are not applied in Albania. As the interview results indicate, only 17% of the population believe that these principles are applied while 37% think that these principles are not applied at all and 44.4% think that they are applied to some extent.

In conclusion, we can say that Albanian society believes that the principle of social fairness is not applied in Albania and that a functioning socio-economic system must create a balance between the individual and society.

A portion of the questions in our survey was intended to measure public perceptions of present and future risks to society and of the state’s role in facing such uncertainties. This was also useful considering the negative shocks received over the last decades, the frequency and cost of which, is continuously increasing. The society we live in of course faces many risks and uncertainty.

Chart 15. Albanian citizens are currently at a higher risk of experiencing a decline in standard of living than the previous generations.

Chart 16. The risk that Albanian citizens will experience a decline in standard of living in the future is:

The risk that Albanian citizens will experience a decline in standard of living in the future is:
Frequent negative economic shocks, the fear of job and income loss, and natural disasters, which are asymmetrical and highly costly, particularly for low-income groups, create an insecure environment for the present and the future.

In comparison with previous generations, according to the Albanian public perception, the risk of a decline in standard of living is significantly higher. 57% of the population responded that this risk is “high and much higher” while more than 70% of them believe this risk is increasing for the future generations.

This scepticism about the future and the increased likelihood of a decline in standard of living is particularly high among young age groups and those currently at their peak earning age (18–29 and 45–59 age groups).

Given the series of negative events our society has experienced - starting with the frequent economic crises, natural disasters (successive floods, earthquakes) up to the current and serious crisis sparked off by the COVID-19 pandemic - such deep scepticism towards the future is totally justifiable.

In view of this strong perception of present and future risks, what is the role of the state in helping to mitigate insecurities and create a socio-economic environment that offers more opportunities for Albanian families to enjoy a greater standard of living?

From Plato to Adam Smith in the classical era, the debate on the role of the state is historically divided into two contrasting approaches: an organic approach that considers the state as an essential part of the society, where the individual can be understood only as a part of the society, and a mechanical approach that considers the state as a human creation built to serve the individual. The relationships between the state and the free market have been complex and unbalanced. At different times, one has occupied a more dominant or minor role over the other. For example, following the demise of the communist system in Central and Eastern European countries, as well as elsewhere in the world, the free market dominated over the state and the laissez-faire doctrine become predominant. However, intermittent crises, particularly the financial crisis of 2008, seem to have altered the balance between them. Market re-regulation and a more active role of the state have become more acceptable doctrine, even in those countries symbolizing capitalism based on the doctrine of individualism such as the US and UK. Considering the fact that these economic crises are seen as the main motivation behind current debates on the role of the state, we will go into more detail on the current academic and intellectual debates.

Economic, financial and social crises are neither a new nor an unknown phenomenon. They seem to have been and will be the permanent companions of development and capitalism. Today’s greatest concern is: what is happening to “anti-crisis prescriptions”? What are governments doing to respond to the crises? Experts believe that the “old historic anti-crisis prescription” is currently undergoing a broad reanalysis and re-evaluation. The differences between such prescriptions are quite evident and incompatible with each other.

The predominant doctrine of 1970–2000, a relatively quiet economic and financial period, favoured the dominant role of the free market over a reduced and minimalist role of the state in the economy. However, the last two crises - the global financial crisis of 2008 and in particular, the crisis sparked by the COVID-19 pandemic – have drawn attention to the indispensable role of the state in coping with and mitigating their socio-economic effects. This is because there are many unknowns and uncertainties surrounding the causes and developments of these unexpected crises, leading economists to reflect on and rethink in essence the strategies, economic policies and specific measures to be taken in such cases.

Under current COVID-19 socio-economic conditions, the role of the state cannot be thought of as “an ordinary role under normal circumstances”. The need for strength and resilience against such unexpected shocks demand a specific new role for the state, the role of guarantor of income and health services at a large-scale. The economist Edmund Phelps, the winner of the 2006 Nobel prize in economic sciences, for this specific situation, uses the term “systemic security and guarantee”, meaning that we should move towards a society that provides a minimum income guarantee for all. This thesis would require a reformation of the role of international financial institutions and a global coordination of social policies.

Society’s acceptance of this new role for the state in such extraordinary circumstances requires a new approach to the financing of these expenses and new perspectives on the budget, debt, fiscal system, role of currency in times of crisis, ways that state can provide such funding, etc.

One of the state’s most important roles in the economy is its proactive intervention in the pension scheme. Currently in Albania the pension scheme is under twofold negative pressure from the ageing of the population, meaning an increasing number of retired persons, and a decreasing number of persons contributing towards the social security scheme. Here we could also add the significant informality in the labour market. A significant number of employees are not declaring their employment and thus are not contributing towards the social security scheme. 621.2 thousand retired persons are receiving pensions, while 752.4 thousand contributing persons are paying contributions. The system dependency ratio is 1.22, meaning that 122 contributing persons are covering 100 retired persons. The revenues generated by the contributions are insufficient to cover all the expenses for benefits and as a consequence, the difference is covered by the state budget. An analysis of state budget funding revealed that the state budget contribution occupied over 40% of the total pension scheme, with the exception of some short-term fluctuations influenced by the share of informality or parametric changes in the pension scheme.
This means that this scheme has never functioned as a scheme based on solidarity of generations, but rather as a social responsibility funded by tax revenues. This situation has caused the total pension fund to be limited, i.e., excessively low pensions for this social category. The average monthly pensions for both urban and rural Albanian retired persons are low and insufficient to meet their basic needs. Over 90% of pensions are significantly lower than the minimum wage and minimum living line.

This concerning situation is also evidenced by the survey, which shows that 80% of the respondents think that “pensions are insufficient to meet basic needs”, 15% somewhat agree, and only 5% of them think that “pensions are sufficient to meet basic needs”.

The solution to this situation requires a greater commitment by the state to reforming the pension scheme, reducing informality in the payment of social contributions, and increasing state budget funding for the Social Insurance Institute (SII) budget.

According to citizens’ opinions, the diversification of pension schemes is an issue that requires a long-term solution. With regard to the question of whether people should assume more individual responsibility for the

### Table 5.
**Average monthly pension 2015–2018 (in all)**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>URBAN PENSIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement pension</td>
<td>14,585</td>
<td>14,873</td>
<td>15,527</td>
<td>15,875</td>
</tr>
<tr>
<td>Disability pension</td>
<td>12,648</td>
<td>12,803</td>
<td>13,390</td>
<td>13,817</td>
</tr>
<tr>
<td>Family pensions</td>
<td>6,696</td>
<td>6,613</td>
<td>6,707</td>
<td>6,897</td>
</tr>
<tr>
<td><strong>RURAL PENSIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement pension</td>
<td>8,330</td>
<td>8,556</td>
<td>8,808</td>
<td>8,792</td>
</tr>
<tr>
<td>Disability pension</td>
<td>6,501</td>
<td>6,595</td>
<td>6,451</td>
<td>6,630</td>
</tr>
<tr>
<td>Family pensions</td>
<td>3,240</td>
<td>2,830</td>
<td>2,478</td>
<td>2,312</td>
</tr>
</tbody>
</table>

Source: SII, Annual statistics

### Chart 17.
**To what extent do you agree or disagree with the following statement on the role of the pension scheme:**

<table>
<thead>
<tr>
<th>Age</th>
<th>Strongly disagree</th>
<th>Somewhat Agree</th>
<th>Agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29 years old</td>
<td>71%</td>
<td>23%</td>
<td>5%</td>
<td>1%</td>
</tr>
<tr>
<td>30-44 years old</td>
<td>81%</td>
<td>15%</td>
<td>4%</td>
<td>1%</td>
</tr>
<tr>
<td>45-59 years old</td>
<td>85%</td>
<td>11%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>over 60</td>
<td>89%</td>
<td>6%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>
retirement age by investing and implementing various private investment schemes, about 70% of respondents “strongly disagree” or “somewhat agree” while only 30% of them “agree” or “strongly agree”. This perception involves three basic elements: (1) the opinion that the pension scheme should continue to be backed by the state budget and that people should continue to pay only for social security obligations under the rules currently in force; (2) the lack of information and financial culture about alternative pension schemes; and (3) the lack of trust in the sustainability and guarantees of these schemes in the Albanian reality.

In public perception, the role of the state seems to be important in matters otherwise known as “duties of the governments”. These matters include environmental protection and climate change risks; higher investments in the public sectors, such as education, health and infrastructure, particularly railway infrastructure; safeguarding jobs that are at risk from trade globalization, etc.

As a key element related to the development of human capital and economic productivity, investments in education require special attention. Albania continues to underfund education in terms of GDP, in particular when compared to other countries in the region. In Albania, government spending on education has historically been low and over the last 15 years it has remained below 3.5% of the gross domestic product (GDP).

Chart 18.
To what extent do you agree or disagree with the following statement on the role of the pension scheme:

- People should assume more individual responsibility for their retirement age by investing and implementing various private investment schemes.

Chart 19:
The state should invest more money in climate protection.
In 2007, one year before the financial crisis and economic recession, spending on education fell to 3.2% and since the 2008 crisis, it has been systematically below 3% of the GDP. Following a comparative review of education spending as a percentage of GDP, the indicator for Albania is below other countries in the region, which spend 4–5% of GDP on education, and below OECD countries that spend 6–7% of GDP.

Underfunding of education negatively affects the quality of schooling, particularly among poor and marginalized groups of the population. With the available budget, even for 2021, Albania will remain among the last countries in Europe in terms of spending in education, while not reaching the target of 5% of GDP.

Citizens’ demands and awareness around development strategies, public investment priorities and private investment trends are evidenced in the fact that a significant portion of respondents see the importance of environmental and climate-related development issues. 80% of respondents agree that “the state should invest more money in climate protection”. It is positive that over 45% of those who are in favour of increasing investment in climate protection belong to the younger age groups- 18–29 and 30–44.

Chart 20.
The state should invest more money in modern schools and universities.

Chart 21.
The state should invest more money in better railway infrastructure in the country.
A broad consensus can be noted in that 88% of respondents agree that “the state should invest more money in modern schools and universities” compared to only 7.6% of respondents who disagree. The perception that “the state should invest more in the development and modernization of schools and universities” is predominant in Albania because citizens consider the current standard to be low and not in line with the best international standards. This in turn leads to the poor quality of education and human capital in the country. In particular among younger generations, the demand for “a better education in the West” is observed. This is also one of the main reasons for wanting to emigrate.

We find the opinion of the public that “the state should invest more money in better railway infrastructure in the country” highly interesting. 82.6% of respondents said that they agree with such a request. This opinion is related both to the feeling of nostalgia for the Albanian railway before the 1990s, a period when it was one of the most used and efficient means of people and goods transport, and the fact that a modern and complete rail network is necessary to serve the country’s economic development and connectivity with neighbouring countries. A modern rail network would create the conditions for greater integration and co-operation with other countries in the region, attract important FDIs and projects, facilitate the movement of people and goods within the country, etc.

In conclusion, all age groups of the population agree with the idea that the state should have a proactive and direct role in the modernization of public services and the making of a functional social security scheme. Although we believe exploring different forms of partnership with the private sector is important, we strongly suggest reforming the way the project is selected, negotiated, contracted and monitored. In addition, the pension scheme reforms should be closely linked to and compatible with labour market development. Projected demographic developments in the current system give no hope for improvement. On the contrary, the financial situation of the pension scheme is projected to deteriorate. Parametric changes to the system will not be able to change the socio-economic situation for this group of the population. Therefore, we should find alternative solutions for reforming the three pillars of the system while also thinking of possible systemic changes. An alternative solution could be to impose legal obligations on employed children in the form of a contribution for the retired parents, a scheme similar to the alimony payable from an adult to his children in divorce cases. The discussion of the future of the pension scheme requires further analysis based on a comprehensive study of the potential alternatives.

A graph illustrates the distribution of responses to the statement: The government should do more to protect people if their job is at risk as a result of digitalization and globalization. The distribution shows a strong consensus, with 44.4% strongly agreeing, 35.8% somewhat agreeing, 11.8% somewhat disagreeing, and 8% strongly disagreeing.
Albania has embraced globalization and integration processes since the beginning of the transition period, first achieving full liberalization of trade and direct investments and later the liberalization of portfolio investments. While the early efforts towards liberalization were unilateral and driven by needs of national economy, it later became part of regional arrangements and global trading system.

Albania became member of WTO in September 2000; it signed a Stabilization and Association Agreement with the European Union in 2006, and in the same year became member of Central European Free Trade Agreement (CEFTA).

According to the latest World Trade Organization report, nearly 49% of Albania’s tariff lines are duty free. The simple average custom tariff applied is 4.2%, while the one for agricultural products is 8.7%.

Foreign trade has increased significantly over the years, as a result of liberalization policies and economic growth. Over the last decade, i.e., 2008–2019, exports increased 50%, while imports were higher by 36%.

Trade liberalization and the significant reduction of tariff trade barriers stimulated an important process of reallocation of resources in the economy, creating groups of beneficiaries and losers. Globalization has now become one of the most contested subjects by world public opinion because it is perceived as bringing benefits only to some and not all social groups.

Chart 23.
International trade (million ALL)

---

12 Of 9,386 tariff lines, according to the Combined Nomenclature. WTO, Trade Policy Review, 2016.
Trade and trade policies seem to have an impact on economic growth and poverty through several channels: (i) prices and availability of goods; (ii) factor prices, income and employment; (iii) government taxes and transfers; (iv) incentives for investment and innovation; (v) external shocks, in particular changes in terms of trade; and (vi) short-term risks and adjustment costs (Winters, 2000). Due to such diversity of distribution channels, the full quantification of the effects is far more complicated or even impossible to calculate. Hertel and Reimer (2004) offer an overview of the literature on the impacts of trade and trade policies on poverty. As this study stresses, the assessments of trade and trade policy impacts, other than differing in methodological approach (general equilibrium vs. partial equilibrium), at their baseline (for example, LSMS observed data or national accounts statistics and the assumptions made about the behaviour of a representative economic agent, etc.) are also partial, i.e., they estimate only one or two distribution channels of the policy effects.

13 Estimates of this part date back to 2005, as, in essence, this is the country's strongest period of trade liberalization. In 2001, Albania became a member of the World Trade Organization (WTO) and part of the regional free trade network with the countries of the region, which ended in 2003 and was reformed under CEFTA in 2006. As a consequence, this is also the period when the main effects of the economic and trade integration processes manifest.

14 Winters, L. Alan, 2000: Trade, Trade Policy and Poverty: What are the links? World Economy, 25(9); 1339-67

Maliszewska and Kolesnichenko (2004) offer a general economic assessment of Albania’s regional and EU integration processes. This study confirms an overall positive effect of integration processes on the welfare gains of citizens and that sectoral reallocations of economic resources are expected as a result of these developments. A similar study was conducted by Xhepa (2005), using the Global Trade Analysis Project (GTAP) model and database. This study also concluded that these processes, although modest, have a positive impact on welfare gains.

In an overview of the empirical assessments of the impact of trade liberalization on welfare gains, we can conclude that they are mostly positive.

The same conclusion is also supported by public perceptions. As indicated by the questionnaire outcome, more than 80% of the population believe that free trade agreements with the region have been positive and they are in favour of strengthening them. Most of the citizens believe such agreements have been beneficial to the national economy.

---

16 Maryla Maliszewska and Anna Kolesnichenko, 2004: General Equilibrium Analysis of Albania’s Integration with the EU and South Eastern Europe, Center for Social and Economic Research, Warsaw, November 2004

17 Selami Xhepa, 2005: Free Trade with the Region, ACIT Papers.
Citizens are somewhat divided on the need to maintain control over policymaking and national sovereignty in the context of deepening globalization processes. The data in the following Charts show that the public would, in general, not like to give up national sovereignty as a result of deeper integration, but on the other hand, a higher level of trust is observed in the control of legislation from an external authority rather than the local politicians.

One of the principal problems of deeper integration in the world economy is that the increase in competitive pressures makes non-competitive industries go bankrupt and consequently, increases unemployment. Governments have responded to such negative consequences of globalization with projects aiming at requalification of the labour force so as to reallocate it to new industries that have resisted increased competition. Significant technological changes resulting from new technologies in the so-called the Fourth Industrial Revolution pose a serious risk to the labour market.

A government role in this issue is also supported by respondents to the survey. About 80% of the citizens believe that governments should play a proactive role in protecting at risk jobs from globalization and digitalization.

In conclusion, we can say that public opinion is in favour of the country’s integration processes and wants them to be strengthened. These processes are considered to have brought significant advantages to the national economy and to have had a positive impact on social welfare gains. The public believes that the government should play a more proactive role in keeping the negative consequences that globalization and technological progress may have on the labour market under control. Local control over legislation and the exercise of national sovereignty are fully appreciated by the public.
After analysing the results of our public perception survey alongside empirical and theoretical literature, this study shows that the Albanian economic system works in a strongly biased manner. Despite the fact that economic growth over the last three decades of transition brought about some progress for society overall, it has brought decline for a significant portion of society. The distribution of income generated by such economic growth seems to have favoured capital more than labour, while the increase of productivity in the economy could support higher wage levels than are actually seen in the labour market. As a consequence, the intervention of public policies to guarantee a fairer distribution of income is highly justified. Nevertheless, we consider the wealth creation process to be unfair. This means that not only the outcomes of income distribution, but also the process of income generation, are considered socially unfair. Thus, redistribution policies are favourable and recommended and broadly supported by all groups and demographics. To improve the system, serious reforms are required that can change economic governance at multiple levels. In addition, a proactive role for the public institutions is necessary.

Social support should not be seen from a paternalistic viewpoint. Instead, the individual should be trained to have more autonomy. Public investments and interventions should aim to create equal opportunities, through increasing investment in vocational education and training, particularly for families in need. The transfer of wealth from one generation to another should not create large gaps between social groups from the very beginning. Increasing social mobility should be a principal objective of public policies.

Globalization effects and technological progress create important opportunities, in particular for small economies like Albania. They enable access to knowledge and new technologies in international markets, while having a positive impact on increasing productivity. At the same time, they introduce some risks to the labour market. Once again, this draws attention to the importance of the role of the state and more proactive policies aimed at creating and protecting the markets.

Taking public opinion and the lessons learned from empirical evidence in our survey into consideration, this study offers some recommendations for necessary reforms in order to avoid a low rate of growth, low productivity, high inequality and environmental degradation in the economy of tomorrow. The recommendations are outlined below and they can be used to inform the policymaking process in the future.

**a. Policies controlling processes that generate inequality and non-inclusive economic growth:**

1. First and foremost, introducing well-studied and long-term financial and fiscal policies requires new institutions such as a **Fiscal Policy Committee** that would function as an independent and professional body guaranteeing the stability of public finances. The proposed Committee would scrutinize the government’s annual and 3-year budget programmes, assess fiscal risks of the PPP contracts or any other concession agreement, or the guarantees provided for public enterprise projects. It would also review any amendments to the fiscal policies and tax system in relation to the consequences that could arise in the distribution of national income.

2. The accounting and tax rules on economic activity should be reviewed in order to achieve a better equilibrium in the distribution of national income. Fiscal and tax favouritism in the law should be provided upon the condition that firms increase investments in improving physical and human capital. Improving working conditions and raising the income of employers should, in particular, be a central objective of any benefits from public policies or fiscal and financial facilities. All the legislation on strategic foreign investments and the facilities and privileges provided to them should be subject to review. The privileges should not be conditional based on the level of investment to be made but on better working conditions and technological standards, paying particular attention to occupational health requirements, internal spill-over effects (outsourcing and internal supplies), etc.

3. Increasing the transparency of firms and strengthening the role of auditors, along with a more severe system of penalties in case of noncompliant balance
sheets. For the authenticity of financial statements, all actors involved should be held responsible, starting from the firm’s authorized financial officer, the companies providing the accounting and financial services, to the certification process of chartered auditors and the role of the public auditor and the Public Supervisory Board. The concerning low level of budget revenues, compared to a high level of mandatory taxes, which is higher than in other countries of the region, is clear evidence of the high tax evasion rate. Such fiscal evasion is legalized through the work of auditors, bringing serious consequences to the economy.

4. The national underground and above the ground assets and all concession agreements awarded for the provision of public services should be subject to special accounting and financial reporting rules. Notwithstanding that Albania is a member of the Extractive Industries Transparency Initiative (EITI), which sets the standards of transparency and financial reporting, there is yet no official document indicating whether the country has fulfilled the obligations arising under his agreement. State institutions, i.e., the respective ministries, should oblige firms to meet all obligations arising from these rules, adapting them as internal legal rules and not as merely optional obligations coming from EITI. We propose that the special transparency and financial reporting rules be extended not only to companies operating in exploitation of underground assets, but also to all concession agreements granting private parties the right to use a public asset.

5. Investing in the education of young people and their integration into the labour market is one of the major goals of society. More than 250,000 young people are currently neither in school nor employed. In the context of an economy based on higher technical and technological standards, the development of their professional skills and their integration into the labour market are serious challenges. The lockdown imposed by the COVID-19 pandemic had an impact on the quality of students’ education and training, which is likely to have lasting effects. Government authorities should take important measures to better fund education and target it as a priority for social and economic development of the country. Quality indicators of the education system and performance indicators for each education institution should be applied in practice in order to receive public funding.

6. The impact of technological changes highly stimulated by the COVID-19 pandemic and the potential possibilities for further development in such area in the near future should be taken into account by government policies for future progress in this regard. More attention should be paid to the jobs at risks due to the technological progress. Public policies that support technology transfer and innovation should favour employment of people and the human dimension in technology (for example through subsidy policy).

7. Trade unions from different sectors of the economy should play a more active role in order to improve social dialogue, public debate and safeguard the interests of employees.

8. A proactive strategy is needed to develop and apply adequate policies that stimulate employment and promote the vocational training of the labour force, aiming to create job opportunities that guarantee higher income for employees and opportunities for lifelong learning and training and that make radical improvements in employment and vocational education services.

9. Turning the Economic Assistance Programme into an active re-integration scheme by introducing new and specific measures aiming to create and increase employment opportunities and involving the beneficiaries of Economic Assistance in the labour market through active policies should be a priority.

10. Increasing the efficiency of the Economic Assistance Scheme by transforming it from a passive to an active scheme that offers reintegration programmes combined with employment programmes guarantees a sustainable connection between Economic Assistance programmes, vocational education programmes, and employment preparation programmes. The ultimate goal of this approach is the empowerment of the family and the individual in the labour market.

11. Social protection strategies and policies should have clearer, more specific and measurable objectives. They should aim to reduce poverty and the exposure of poor households and vulnerable social groups to various risks and shocks that have an impact on the poverty level by creating resilience, avoiding income shortages and maintaining an acceptable standard of living.

b. Policies correcting the outcome of income distribution.

12. In order to create equal economic opportunities from the very start and address the need for better harmonization and equilibrium of the fiscal burden among labour, capital and property taxation, Albania should take into consideration the inheritance tax. The inheritance tax, in all the countries where it is applied, is an important public policy instrument, not only for fiscal purposes, but also for the greater purpose of income redistribution among generations. It is used to mitigate the differences between generations from the very beginning. The practices applied are well-known: (a) imposing an inheritance tax only to the sum that exceeds an exemption threshold, usually on inheritance to children, and imposing a tax rate to the inherited property/estate value (relatively high – up to 40%, in countries like UK, US, etc.); or (b) imposing lower tax rates and very limited exemptions (mainly and only to immediate family).
13. Progressive tax should not apply only to personal income of employees. This principle should also be applicable to the income that businesses distribute in the form of dividends. The dividend is the personal income of those who are considered the wealthy group of society and not applying the principle of progressivity to such groups of society would be social injustice. Additionally, applying a reduced tax rate on dividends (8%) while the marginal tax rate for high-wage employees is 23%, also contributes to the concentration of wealth through the accumulation process, thus increasing social inequality.

14. The legal framework of a firm’s governance should be reviewed to rebalance the power among its actors: employees and employers. A series of laws issued to safeguard the interests of employees were not applied in practice. This confirms the fact that they were adopted only to comply with international obligations, like the ones imposed by the European integration process. A wide-ranging national discussion needs to be had about the relationships between employers and employees and the selection of more efficient controlling instruments to ensure a better balance among the parties’ interests. The state inspectorates in charge of monitoring compliance with these standards should prepare annual reports of their work. These reports should be transparent and open to the public. Awarding a quality certificate to the companies that observe labour and environmental standards should be taken into consideration as an instrument promoting public support or punishment for the products and services of the companies.

15. The legislation on minimum wage level needs to be strengthened. A more rigorous control by the law enforcement institutions is needed and its penalties in the case of violations should be significantly heavier. A code of practice for minimum wage could be developed following a national dialogue in a tripartite employer-employee-government council.

16. It is necessary to identify the real level of poverty and the minimum standard of living in the country, while analysing price levels, the consumer basket, spending levels and inflation level, the impact of the COVID-19 pandemic on the deepening of poverty, etc., in order to assess the contribution to poverty reduction and to maintain the transparency of public funds spending for the reduction of poverty.
REFERENCES

Acemoglu, Daron (2009): The Crisis of 2008: Structural Lessons for and from Economics, MIT.


Financial Times (October 2008): I Made a Mistake, Alan Greenspan.


Xhepa, Selami (2005): Free Trade with the Region, ACIT Papers.


ANNEX 1: QUESTIONNAIRE

1. To what extent do you agree or disagree with the statements on the current socio-economic relations in Albania?
   a) Uneven distribution of income and wealth in Albania is an increasing concern for social cohesion of the population.
   b) In Albania, when the economy is stable, it is usually beneficial to all citizens.
   c) Albanian citizens ranking among the richest, i.e., those earning much and owning property, have usually earned such wealth.
   d) A society works best when everyone thinks of him/herself first.

2. To what extent do you agree or disagree with the following statements on the role of the pension scheme:
   a) Pensions are sufficient to meet basic needs.
   b) People should assume more individual responsibility for their retirement age, by investing and implementing various private investment schemes (e.g., guaranteed and tax-free retirement savings accounts, private pension funds, etc.)

3. In your opinion, to what extent is the principle of social equality currently applied in Albania?

4. To what extent do you agree or disagree with the following statements on the policy measures with an impact on socio-economic relations in the country:
   a) Policies pay much attention to private sector interests and little attention to population’s interests.
   b) The government should do more to protect people if their jobs are at risk as a result of digitalization and globalization.

5. Albanian citizens are currently at a higher risk of experiencing a decline in standard of living than the previous generations.

6. The risk that Albanian citizens will experience a decline in standard of living in the future is:

7. The State should:
   a) invest more money in climate protection
   b) invest more money in modern schools and universities
   c) invest more money in better railway infrastructure in the country
8. To what extent do you agree or disagree with the following statements on the progress of regional economic and financial integration:

a) Trade agreements with countries in the region have been very productive and need to be further deepened.

b) Economic agreements aiming to bring us closer to the EU integration process have had/have a very positive impact in Albania.

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Somewhat agree</th>
<th>Somewhat disagree</th>
<th>Strongly disagree</th>
<th>Agree</th>
<th>Disagree</th>
</tr>
</thead>
</table>

9. To what extent do you agree or disagree with the following statements about the regional economic and financial integration process:

a) Elected politicians should, once again, have more influence on national legislation and should establish valid rules.

b) The process of economic and financial integration in the region needs to be further deepened, even if it means giving up national sovereignty to a certain extent.

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Somewhat Agree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

10. The regional integration process has generally brought:

<table>
<thead>
<tr>
<th>More advantages</th>
<th>More disadvantages</th>
<th>Don’t know</th>
</tr>
</thead>
</table>
1.a. To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

Uneven distribution of income and wealth in Albania is an increasing concern for social cohesion of the population.

- Strongly agree: 66.6%
- Somewhat agree: 25.3%
- Somewhat disagree: 5.5%
- Strongly disagree: 2.6%

From the above data, we find that the majority of respondents, i.e., 66.60% of the total, “strongly agree” with the statement that uneven distribution of income and wealth in Albania is becoming an increasing problem for social cohesion of the population.

1.b. To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

In Albania, when the economy is stable, it is usually beneficial to all citizens.

- Strongly disagree: 22.6%
- Somewhat disagree: 21.1%
- Somewhat agree: 29.0%
- Strongly agree: 27.4%

From the above data, we note that the majority of respondents, representing 56.4% of the total, “somewhat agree” and “strongly agree” with the statement that in Albania, when the economy is stable, it is usually beneficial to all citizens.
1.c To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

Albanian citizens ranking among the richest, i.e., those earning much and owning property, have usually earned such wealth.

- Strongly agree: 8.8%
- Somewhat agree: 16.2%
- Somewhat disagree: 36%
- Strongly disagree: 39%

From the above data, we observe that the majority of respondents, representing 75% of the total, “disagree” or “somewhat disagree” with the statement that Albanian citizens ranking among the richest, i.e., those earning much and owning property, have usually earned such wealth.

1.d. To what extent do you agree or disagree with the following statement on the current socio-economic relations in Albania:

A society works best when everyone thinks of himself/herself first.

- Strongly agree: 20.9%
- Somewhat agree: 24.1%
- Somewhat disagree: 25.3%
- Strongly disagree: 29.7%

From the above data, we note that the majority of respondents, representing 29.7% of the total, “disagree” with the statement that a society works best when everyone thinks of himself/herself first.
2.b. To what extent do you agree or disagree with the following statement on the role of the pension scheme:

From the above data, we observe that the majority of respondents, representing 30% of the total, “strongly disagree” with the statement that people should assume more individual responsibility for their retirement age by investing and implementing various private investment schemes.

3. In your opinion, to what extent is the principle of social equality currently applied in Albania:

From the above data, we note that the majority of respondents believe that the principle of social equality is currently not applied in Albania.
4.a. To what extent do you agree or disagree with the following statement on the political measures that have an impact on the socio-economic relations in the country:

Based on the above data, we note that most of respondents believe that policies pay much attention to the interests of private sector and little attention to interests of the population.

4.b. To what extent do you agree or disagree with the following statement on the political measures that have an impact on the socio-economic relations in the country:

From the above data, we find that the majority of respondents, representing 44.40% of the total, “strongly agree” with the statement that the government should do more to protect people, if their jobs are at risk as a result of digitalization or globalization.
5. Albanian citizens are currently at a higher risk of experiencing a decline in standard of living than the previous generations.

From the above data, we observe that the majority of respondents, representing 37.50% of the total, responded that people are currently at a higher risk of experiencing a decline in standard of living, than the previous generations.

6. The risk that Albanian citizens will experience a decline in standard of living in the future is:

Respondents believe the risk that Albanian citizens experience a decline in standard of living in the future is likely to increase.
7.a. The state should invest more money in climate protection.

From the above data, we find that the majority of respondents, representing 81.80% of the total, “agree” that the state should invest more money in climate protection.

7.b. The state should invest more money in modern schools and universities.

From the above data, we find that the majority of respondents, representing 88.00% of the total, “agree” that the state should invest more money in modern schools and universities.
7.c  The state should invest more money in better railway infrastructure in the country.

From the above data, we find that the majority of respondents, representing 82.60% of the total, “agree” that the state should invest more money in better railway infrastructure in the country.

8.a. To what extent do you agree or disagree with the statement on the progress of regional economic and financial integration:

From the above data, we observe that the majority of respondents, representing 47.10% of the total, “agree” that trade agreements with the region have been very productive and need to be deepened further.
8.b  To what extent do you agree or disagree with the following statement on the progress of regional economic and financial integration:

- From the above data, we observe that the majority of respondents, representing 45.40% of the total, “agree” that economic agreements aiming to bring us closer to the EU integration process have had/have a very positive impact in Albania.

9.a. To what extent do you agree or disagree with the following statement on the regional economic and financial integration process:

- From the above data, we observe that the majority of respondents, representing 37.20% of the total, “somewhat agree” with the statement that the elected politicians should, once again, have more influence on the national legislation and should establish valid rules.
9.b. To what extent do you agree or disagree with the following statement on the regional economic and financial integration process:

From the above data, we observe that the majority of respondents, representing 38.50% of the total, “strongly disagree” with the statement that the process of economic and financial integration in the region should be further deepened even if it means giving up sovereignty to a certain extent.

10. The regional integration process has generally brought:

From the above data, we observe that the majority of respondents, representing 64.50% of the total, have responded that the effects of the integration process have brought “more advantages”.
ON THE AUTHORS

Prof. Assoc. Dr. Selami Xhepa
Holds the title Associate Professor in economic sciences and is the President of the European University of Tirana. In addition to his academic career and professional engagement in various institutions, including the position of Chief Economist in the Department of Research and Monetary Policy at the Bank of Albania and Research Manager at the Albanian Center for International Trade, Dr. Xhepa has also held several administrative posts. He has served as Executive Director of the Foreign Investment Agency, Economic Policy Advisor to the Prime Minister and member of the Economic and Finance Commission of the Albanian Parliament. His research interests cover the areas of international economics and development.

Prof. Dr. Adrian Civici
Prof. Dr. Adrian Civici holds a PhD in economic sciences (ENSA, Montpellier, France, 2002) and a PhD in Agricultural Economics (Agricultural University of Tirana, 1993). In 1995, he was awarded the title Associate Professor and since 2011 he has held the title of Professor in economic sciences. During his professional career he has worked as Head of Department of Agricultural Economics and Policies, Dean of Faculty of Agricultural Economics at Agricultural University of Tirana, Executive Director of the Center for Rural Studies and Sustainable Development, Advisor to the Minister of Finance, Director of Albanian National Strategy of Economic and Social Development, Advisor for the Development Plan to the Government of Kosovo, Rector of the European University of Tirana (EUT), Deputy Rector and Director of Doctoral School at EUT, Member of Supervisory Board of the Bank of Albania, President of EUT, and Dean of Faculty of Economics at Albanian Mediterranean University (AMU). Currently he holds the position of Rector of the AMU. His areas of expertise are economic policies for economies in transition, the process of transformation and structural reorganization of the Albanian economy, economic theories and development models, policies and strategies of international institutions, financial markets, monetary policies and banks.
Albanian public opinions and perceptions

The purpose of this study is to analyse public perception of the socio-economic system, the relationship between the state and the market, the evolution of the social value system over three decades of transition towards a democratic system and market economy, and public opinion on the European integration process of the country.

This study is based on the premise that the economic development of the country has generated great social inequality and that a cohesive and harmonious society is the key to both increasing the quality of life in the country and to guaranteeing the long-term sustainability of the socio-economic system itself. To test this premise, the research project team prepared a questionnaire and performed empirical and theoretical analysis.

Some of the key findings of the study are:
(i) Uneven distribution of income and wealth in Albania is increasingly hampering the social cohesion of the population;
(ii) The system is unbalanced in favour of capital;
(iii) Only 30% of the population supports the idea of a society based on individualism;
(iv) Society perceives an increasing risk for decline in the standard of living;
(v) The strengthening of integration processes and the effects of free trade agreements that preserve local control over the country’s legislation are well appreciated.

For More Information:
https://www.fes-tirana.org/al/publikime/