ANALYSE

LABOUR AND SOCIAL JUSTICE

IMPROVING SOCIAL PROTECTION IN ROMANIA

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November 2020

Only one-fifth of children living in low-income households in Romania avoid poverty as a result of social transfers, as compared to 40% in the EU on average

The value of the social reference indicator used as a benchmark for social benefits has remained constant at 500 lei since its introduction in 2008. The increase of the social reference indicator to 1,200 lei would results in an estimated economic gain of 0.9% of the GDP

Income-support benefits, fair progressive taxation and better access to health insurance are necessary to foster labour market transitions from precarious employment to wage labour

FRIEDRICH EBERT STIFTUNG

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INTRODUCTION

The quest for social protection is enshrined as a fundamental task of modern states and assumed to constitute a key pillar of the European Union[1]. Although the ideological framing of social protection varies historically and geopolitically throughout Europe, with there being a different emphasis on compensation for "dis-welfare" and structural disadvantage, social investment, lifelong and intergenerational redistribution of resources, risk-sharing, empowerment of the most vulnerable and support for the enactment of human rights, there is a mainstream consensus that governments should act to ensure the welfare of their citizens.

The Romanian Constitution[2] explicitly assigns the state the role of safeguarding the quality of life for all citizens in Art. 47:

1 The State shall be obligated to take measures promoting economic development and social protection of a nature to ensure a decent living standard for its citizens.
2 Citizens have the right to pensions, paid maternity leave, medical care in public health centres, unemployment benefits, and other forms of public or private social security, as stipulated by the law. Citizens have the right to social assistance by law.
(The Romanian Constitution, Art. 47)

At the moment of writing (September 2020), the Romanian government was just completing its *National Strategy on Social Inclusion and Poverty Reduction 2015-2020 as well as the more specific Strategy for the Inclusion of Romanian Citizens of Roma Ethnicity for the period 2014-2020*. According to the baseline indicators of the European Semester, Romania has made little progress on poverty-reduction and social inclusion since the strategy was launched (European Commission, 2020).

This report has a twofold aim: first, to examine welfare efforts and (whenever possible) the effectiveness of the Romanian welfare state compared to the European Union's (EU) average; second, to explore and discuss potential directions of change that could improve social protection in Romania. To this end, we adopt the conventional distinction between the social insurance system (pensions, unemployment benefits, sickness and maternity leaves, compensations for workplace accidents, etc.), the social assistance system (means-tested income support benefits, family allowances, benefits for people with disabilities, social housing and other forms of support in kind for low-income households, etc.) and subsidised social services (child care, long-term care for the elderly and those living with a life-limiting disease or disability, protection for vulnerable groups, etc.). Our focus remains on redistributive social transfers that provide income-support in situations involving unemployment, poverty, old age or other forms of vulnerability, i.e. through social protection and social assistance and benefits.

When analysing the functioning of social protection and forwarding recommendations on how to improve it, we bear in mind the specific context of the Covid-19 pandemic, but also some enduring features specific to Romania that warrant greater attention in the design of social policy:

- Very high rates of in-work poverty (16% as compared to the EU average of 9%)[3]
- Marginalisation and severe multiple deprivations faced by Roma communities
- High levels of income inequality and excessive taxation of (low) wage-earners
- Rural-urban divide in terms of access to fair employment and social services
- High rates of transnational labour migration to other EU countries and very low rates of immigration to Romania

In the first section, the report takes a cursory glance at major changes that have taken place in the social protection system in Romania during the past decade, demonstrating that the underlying rational has been to slash expenditures, reduce state involvement in the provision of welfare and cut support for labour market outsiders. Based on a liberal-conservative understanding of society, these changes have had disastrous consequences for the poorer strata of society. Second, the report then performs a deep-dive into the main means-tested income support benefits and social protection for the unemployed, while also providing a summary review of other welfare policies. Next underscore that the main consequence of welfare state retrenchment during the past decade has been that Romania has remained a European laggard in terms of poverty reduction, access to services, and labour market integration. Freezing the value for the Social Reference Indicator (ISR), to which key social assistance programmes are pegged, has led to an increasing gap between labour market insiders and recipients of social assistance, who typically combine precarious labour-intensive work with welfare benefits (Vincze et al., 2019, Guga, 2016, Teşliuc et al., 2015, Bojincă, 2009). We also evaluate the macroeconomic impact of increasing the ISR and show how an increase in the ISR would translate into different economic growth levels. In the final section we conclude by outlining our key policy recommendations.

1 See: The European Pillar of Social Rights, https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en (Accessed: 15 September 2020)
2 http://www.cdep.ro/pls/dic/site.page?den=act2_2&par1=2 (Accessed: 15 September 2020)
3 https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20200131-2 (Accessed: 15 September 2020)

1

SOCIAL PROTECTION IN ROMANIA AT A GLANCE AND MAJOR CHANGES OVER THE PAST TEN YEARS

The Romanian welfare state has undergone significant changes during the past two decades. Its universalist kernel has been gradually altered through both parametric and paradigmatic reforms, resulting in a residual welfare state model with a dualist bent (Kuitto, 2016a, Kovács *et al.* 2017, Raţ *et al.* 2019). Entitlements have been cut, especially for the least fortunate and those most in need of redistribution, while relatively generous benefits have been maintained for labour market insiders, whose incomes remain protected both before and after retirement. Dualisation is most evident in the social insurance system, with regressive redistribution in the case of maternity and child care leave benefits, and deeply rooted inequalities in the public pensions system. These issues also surface in the social assistance system. Although the number of social assistance programs in Romania is high (14 programmes in sum total), they fail to target the most vulnerable groups and are ineffective in reducing poverty. In fact, while any type of social assistance program fails to reach about 11% of people in the first income decile, the richest 20% of Romanians receive some form of tax-financed social benefits (Ministerul Muncii, 2019).

The evolution of the social reference indicator (ISR) is illustrative of these broader processes of dualisation that have cast aside the aim of vertical redistribution to the detriment of the underprivileged. Launched in 2008, ISR was supposed to serve as a benchmark to ascertain the values of different social protection benefits in a coherent manner, based on a system of specific indexes (Law 292/2011 on Social Assistance). However, subsequent governments ignored the indexation rules for the ISR, which were set out in legislation, instead making ad-hoc decisions on the indexing of various benefits. For example, while the value of the universal child allowance (a popular measure supporting *all* families with dependent children) was increased more than three times in the last ten years, the guaranteed minimum income (reaching out to the most disadvantaged, who are allegedly "welfare dependent") has remained more or less constant. Moreover, as we discuss later, the ISR was indexed neither to the monetary poverty threshold, nor to the minimum basket of goods and services (Mihăilescu, 2012, Pop et al., 2016, Guga et al., 2018). It remained constant at RON 500/month, regardless of the changing value of real wages and inflation levels. For example, by September 2019 the value of the basket of consumption goods for a family of two parents and two dependent children climbed to almost RON 7,000/month according to an updated study commissioned by the Friedrich Ebert Stiftung[4], while the cumulated value of the guaranteed minimum income and family allowances for this model family was only RON 732 /month[5].

Poor targeting and regressive redistribution are compounded by the low level of expenditures on social assistance benefits. As **Figure 1.** shows, total welfare state expenditures in Romania are below 15% of GDP, whereas the European average currently lies at 28% of GDP. Overall, in terms of welfare spending Romania is also a laggard when compared to other Central and Eastern European countries (**Figure 2**). The data furthermore shows that the bulk of welfare state expenditures in both the EU and Romania go towards financing old-age pensions. Furthermore, compared to the EU average, Romania directs a significantly lower share to benefits aimed at tackling social exclusion, unemployment and providing housing benefits.

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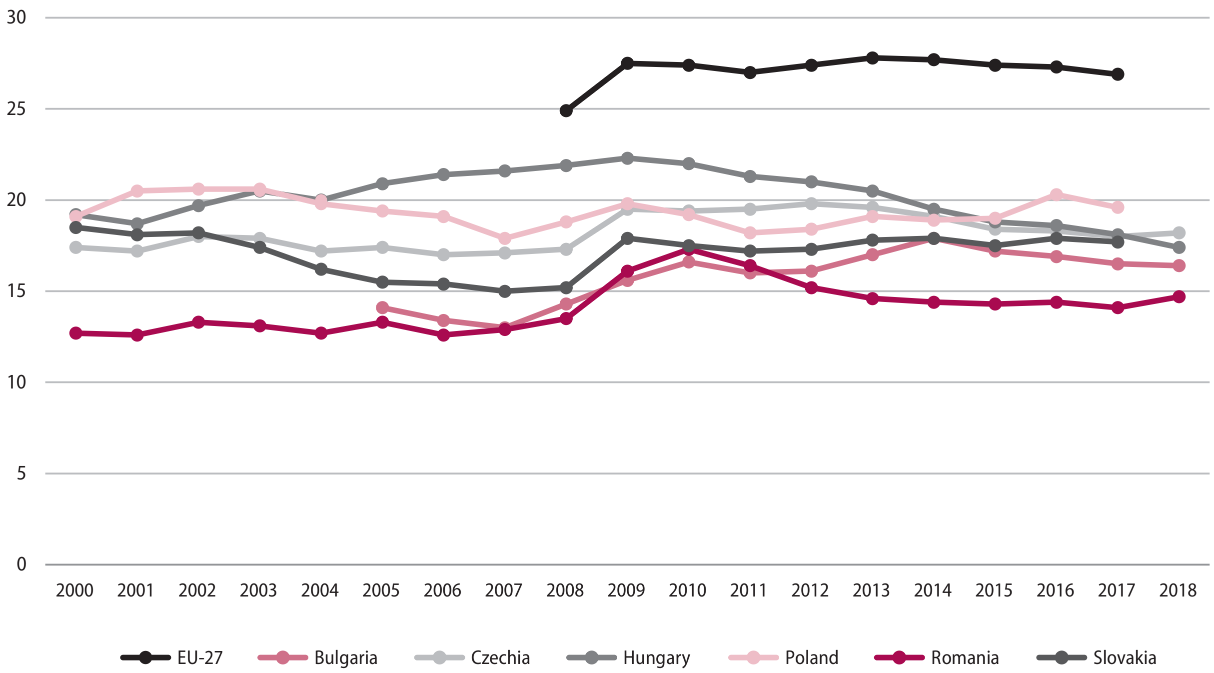
3 https://financialintelligence.ro/fundatia-friedrich-ebert-stifung-cosul-minim-pentru-un-trai-decent-creste-cu-28-la-6-954-lei-luna-in-septembrie-2019/ (Accessed: 15 September 2020).

4 The cumulative income of a family composed of two parents and two dependent children can be calculated as the value of social aid (RON 442/month), two universal child allowances (RON 168/month) and the means-tested family allowance (RON 122/month).

Figure 1
The evolution of the structure of social expenditures measured as a % of GDP in Romania as compared to the EU-27 average

Source: Eurostat, data from 2000 until 2017. Tempo on-line dataset for Romania, 2018. No data for EU-27 as of 3 September 2020. Authors' own graph.

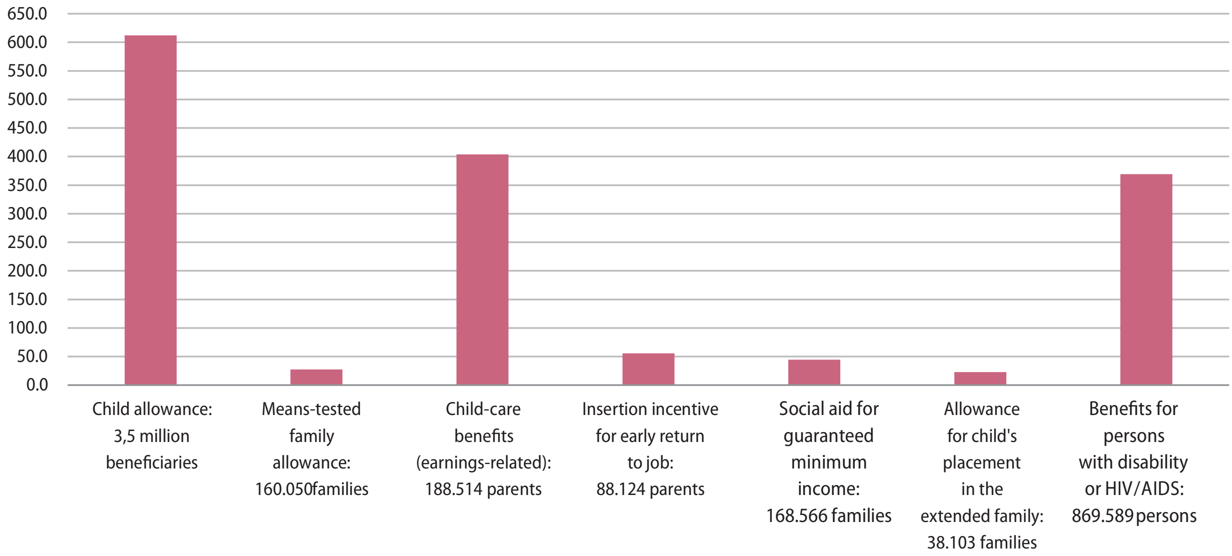
Figure 2
The evolution of social expenditures measured as a % of GDP in Romania as compared to other CEE countries and the EU-27 average



Source: Eurostat, data from 2000 until 2018. Tempo on-line dataset for Romania, 2018. No data for EU-27 and Poland as of 3 September 2020. Authors' own graph.

More specifically, spending on benefits that the Ministry of Labour and Social Protection classifies as "social assistance benefits", i.e. benefits financed from the budget of the Ministry with general tax revenue (as opposed to social insurance funds) include not only universal or means-tested benefits, but also earnings-related benefits pegged to the payment of income taxes (such as paid child care leave). Vertical redistribution towards low-income groups is meagre: the two the main targeted benefits, namely the means-tested family allowance and guaranteed minimum income, accounted for only 6% of welfare spending (Ministerului Muncii și Protecției Sociale, 2020: 12). **Figure 3.** illustrates the structure of spending as of June 2020 and the low share of redistributive transfers.

Figure 3
The structure of spending on social protection benefits administrated by the Ministry of Labour and Social Protection



Source: Ministry of Labour and Social Protection, Monthly Statistics, Accessed: September 2020. Authors' own graph.
Note: Labels indicate the number of beneficiaries (persons or families). Percentages indicate the share of total reported spending.

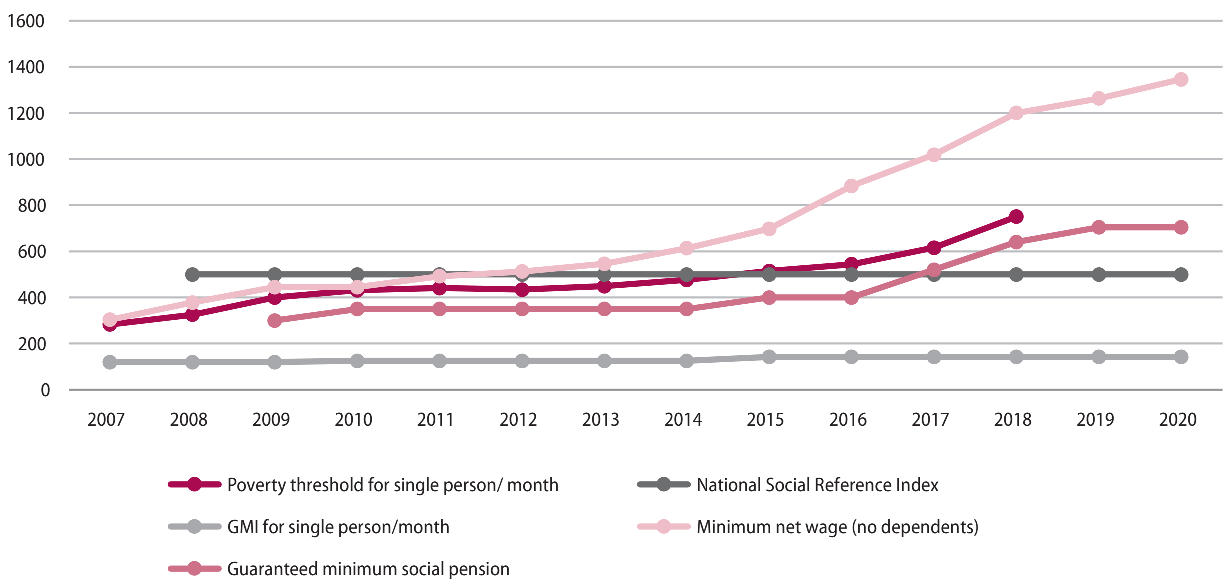
2

BENEFIT ADEQUACY, COVERAGE AND POVERTY-REDUCTION EFFECTIVENESS

In order to evaluate the impact of social transfers on social inequalities and welfare, we used two standard indicators: benefit adequacy, measured against the monetary relative poverty threshold (Eurostat methodology) and minimum wage, and relative poverty-reduction effectiveness, measured as the share of persons living in households below poverty thresholds based on their market income and other private resources (pre-transfers poverty rate) who nonetheless avoid poverty because they receive social benefits (post-transfers poverty rate). In addition, in order to estimate the coverage of benefits, we tracked the evolution of the number of beneficiaries in relation to the evolution of the poverty rate.

Benefit adequacy worsened over time, as the gap between the minimum net wage and the national social reference indicator (ISR) continued to widen between 2008 and 2020. As of 2020, ISR only accounts for 37% of the minimum net wage and 66% of the 2018 monetary poverty threshold. The guaranteed minimum income has remained almost unchanged since EU accession, while the guaranteed minimum pension for those who qualify for old-age or disability pensions in the public system has increased moderately, but still falls below the ISR (**Figure 4**).

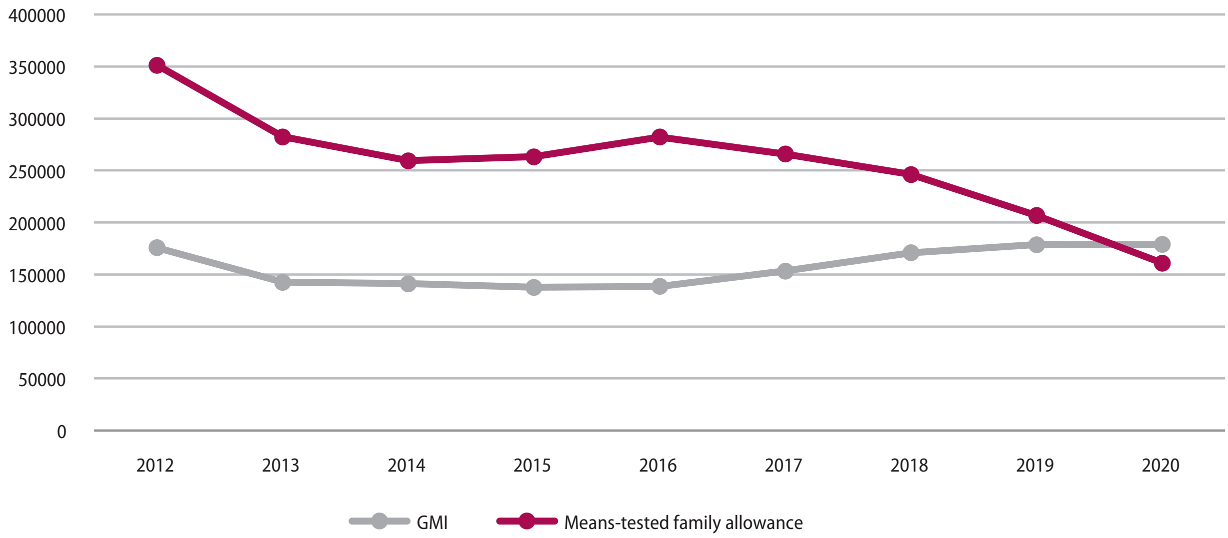
Figure 4
The level of the Social Reference Indicator relative to the minimum net wage, the poverty threshold, the guaranteed minimum income and the minimum pension



Sources: Tempo on-line (the poverty threshold), the Ministry of Labour and Social Protection (minimum wage, social reference index, guaranteed minimum income – GMI). Authors' own graph.

Given that the statistics provided by the Ministry of Labour and Social Protection only report on the number of families receiving means-tested benefits, but do not indicate the number of persons who make up these families, nor do they break down the data by family structure, indicators of coverage could hardly be computed without using estimates based on EU-SILC or other survey data. However, existing data point to a decrease in the number of beneficiary families and also to a discrepancy between the high number of people living below the poverty threshold and the very low number of GMI beneficiaries and families with children receiving means-tested family allowances (see **Figure 5**).

Figure 5
The number of families receiving GMI and/or means tested family allowances



Source: Ministry of Labour and Social Protection, Monthly Statistics, Accessed: September 2020. Authors' own graph.

Poverty reduction effectiveness is measured as the per centage of persons living in households below the monetary poverty threshold based on their market income and pensions who nonetheless avoid poverty because they also receive social benefits. As shown in Table 1, although at the national level the poverty rate only slightly increased between 2017 and 2019, differences between regions have widened. The Northeast Region stands out with the highest poverty rate at 41.1% and the lowest relative poverty reduction, with only 5.3% of welfare recipients managing to avoid poverty. If we exclude the capital city of Bucharest, taken as a region on its own, the best performing region remains the Northwest.

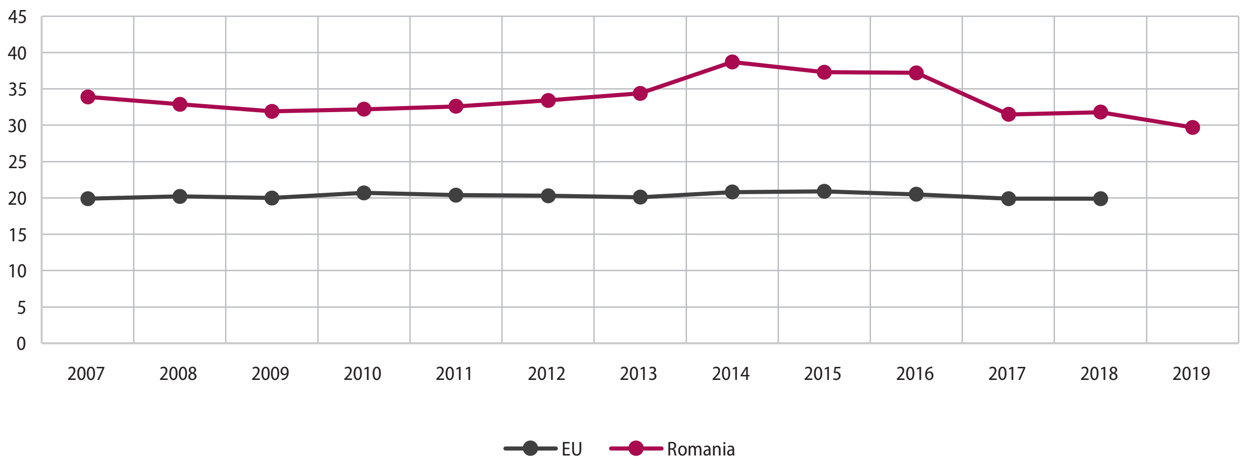
Table 1
Poverty rates and relative poverty reduction by development regions (NUTS-2) in Romania

	At-risk-of poverty rates (relative monetary poverty)			Relative poverty reduction		
	2017	**2018**	**2019**	**2017**	**2018**	**2019**
Romania	23.6	23.5	23.8	16.6	16.1	15.3
Nord-Vest	19.0	17.5	14.7	24.0	21.9	25.8
Centru	17.3	19.4	21.2	25.8	16.4	20.3
Nord-Est	33.4	35.6	41.1	16.1	17.0	5.3
Sud-Est	29.6	31.2	31.1	11.1	11.4	17.9
Sud – Muntenia	24.9	25.7	26.0	19.9	16.3	18.0
Bucuresti – Ilfov	6.1	4.1	2.9	25.6	51.8	52.5
Sud-Vest Oltenia	33.4	34.3	31.6	10.0	7.3	9.7
Vest	21.4	14.9	14.7	7.8	11.8	13.0

Source: Eurostat, 2020. Authors' own calculations of poverty reduction.

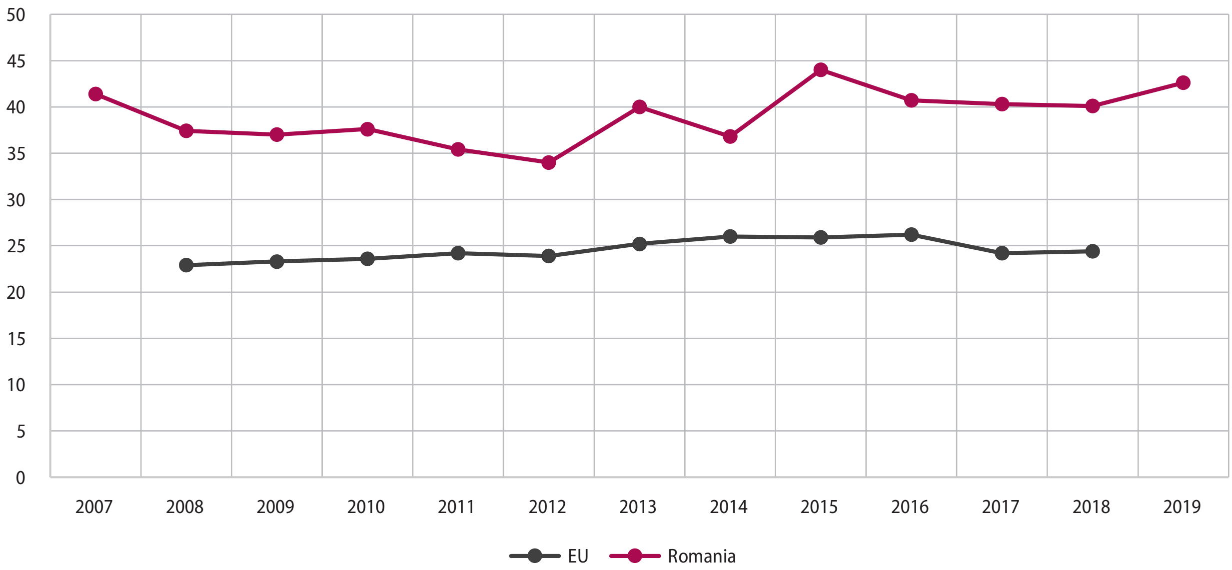
Concerning child poverty, not only poverty rates, but also poverty gaps are higher than the EU average, as Figure 6 and Figure 7 indicate. Furthermore, only one-fifth of children living in low-income households could avoid poverty because their families receive social transfers. In the EU, relative poverty reduction for children is 40% on average (**see Figure 8**).

Figure 6
The evolution of at risk-of-poverty rate for children below 16 years of age in Romania as compared to the EU-27



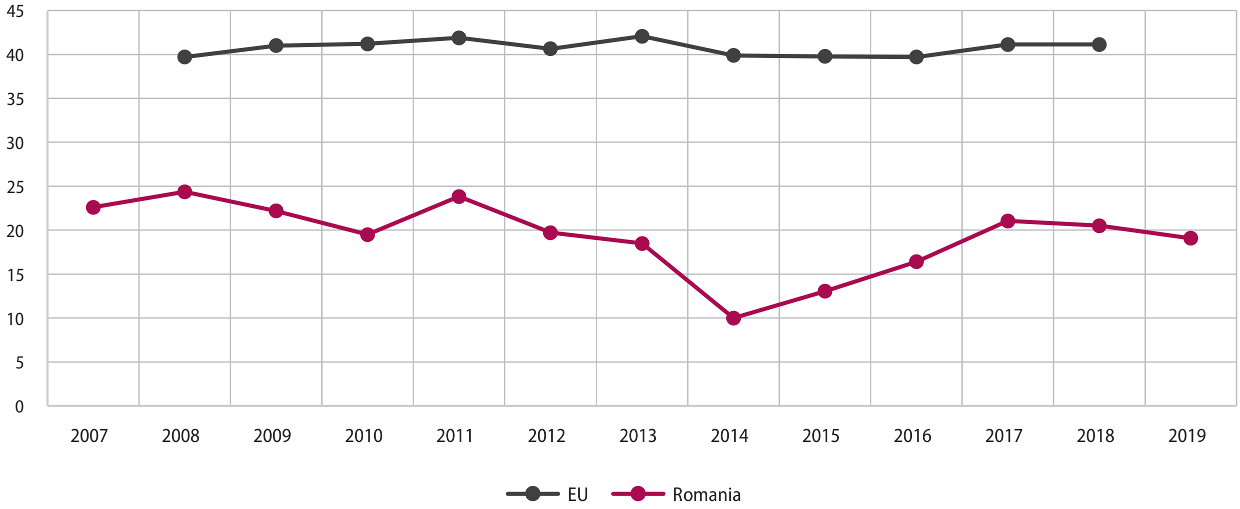
Source: Eurostat, 2020. Authors' own graph.

Figure 7
The evolution of the median poverty gap for children below 16 years of age in Romania as compared to the EU-27



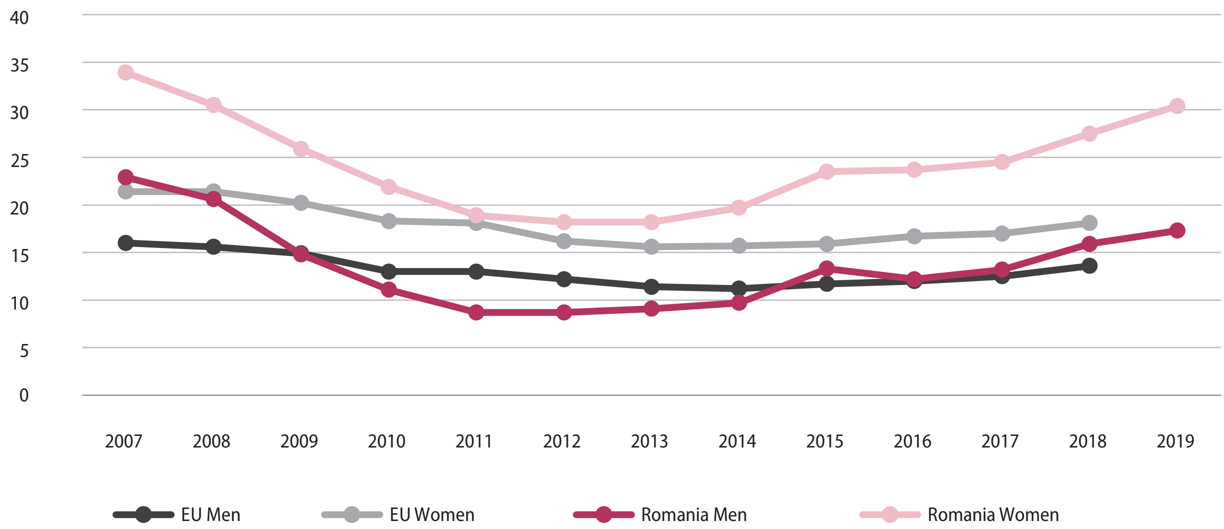
Source: Eurostat, 2020. Authors' own graph.

Figure 8
The evolution of the relative monetary poverty reduction for children below 16 years age in Romania as compared to the EU-27



Source: Eurostat, 2020. Authors' own calculations and graph.

Figure 9
The evolution of the relative monetary poverty reduction for children below 16 years age in Romania as compared to the EU-27



Source: Eurostat, 2020. Authors' own graph.

3

MEANS-TESTED INCOME SUPPORT BENEFITS: GUARANTEED MINIMUM INCOME AND FAMILY ALLOWANCE FOR LOW INCOME FAMILIES WITH DEPENDENT CHILDREN

The Guaranteed Minimum Income (GMI) is the most basic social assistance benefit and is intended to target the most deprived individuals. However, since its adoption in 2001, the GMI has undergone numerous changes which have increasingly constrained access to it for those most in need, while also reinforcing behavioural control and the punitive elements of the policy. Despite having dubious empirical backing (Arpinte 2019), these disciplining aspects of the policy are fuelled by stereotypical beliefs about people who receive the GMI. As recent debates surrounding the amendment of the GMI law illustrate[6], punitive measures are held to be justified because 'in Romania there are almost 7 million dependants on the social assistance system' who 'complain about poverty, but do not rush to take up a job, choosing instead to leech off society through social assistance'. Another commonly held view is that 'the state should not make things convenient for those dependent on social assistance' and should not provide financial assistance 'to a bunch of lazy individuals who do not want to work without regard for the fact that their income is being financed by their fellow citizens'.

The foregoing narrative is part and parcel of a current in liberal-conservative notions of the Romanian welfare state as a bloated item of expenditure in the public budget, crowding out investment in other areas. These messages are taken up in the media, which portrays the poor as undeserving and incapable of adjusting to the requirements of the market (Ţoc, 2020).

However, a realistic look at data on the number of GMI beneficiaries and total expenditures on the policy reveals that this denigrating narrative obscures the failure of the GMI to serve as a significant policy instrument in lifting people out of poverty. Indeed, as **Table 2**. shows, between 2011 and 2020 the number of GMI beneficiaries has decreased by 17 thousand. The data also reveal that in the past decade, the number of beneficiaries has fluctuated, peaking out at 245 thousand in 2016. Fluctuations in the number of beneficiaries have been driven mainly by administrative changes in policy, such as reallocation of the GMI budget benefit from resource-poor local budgets to the national budget, a move which allowed for a temporary increase in the coverage rate (Arpinte, 2019). The data also show that the average level of the GMI benefit has changed over time, but that the change has been marginal relative to the poverty line[7] in Romania. Moreover, changes in average benefit levels have been driven by the changing demographic profile of those who apply for the GMI rather than by an increase in the generosity of the programme. As the GMI is linked to the social reference indicator (ISR), whose value has remained unchanged since 2008, the real value of benefits has declined over time.

Table 2
The evolution of the number of GMI beneficiary families & single persons and the average amount of social assistance benefits received

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Number of beneficiaries (000s)	186	193	217	240	225	245	231	200	174	169
Average benefit (RON)	173	179	205	230	229	276	278	276	267	263
At-Risk of Poverty rate (AROPE)[8]		28.4	28.7	30.2	30.0	31.0	29.3	27.3	30.0	

Source: Ministry of Labour and Social Protection.

6 Expunere de motive, http://www.cdep.ro/proiecte/2018/100/90/2/em250.pdf
7 According to the National Institute for Statistics, the relative poverty line in Romania in 2018 was RON 750/month.
8 AROPE was developed by Eurostat as a three-dimensional indicator of the risk of poverty and social exclusion. It is composed of three dimensions: monetary relative poverty, material deprivation and low work intensity. See: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/People_at_risk_of_poverty_or_social_exclusion (accessed: 15 September 2020).

Indeed, whereas in 2008 the value of the ISR was on par with that of the gross minimum wage (Ministerul Muncii, 2020), by 2020 the ISR only represented 22.4 per cent of the gross minimum wage (Ministerul Muncii, 2020).[9]

Unsurprisingly, despite the celebratory tone of some assessments of the performance of the Romanian social assistance programmes (Curtea de Conturi, 2017), the reality is dire. As **Table 2.** shows, despite remarkable economic growth in the aftermath of the 2009-2012 global crisis, the at-risk-of-poverty rate in Romania increased from 28.4 per cent in 2012 to 30 per cent in 2019. As we have already showed in **Figure 8.**, the impact of social transfers on the poverty rate has been minimal.

Second, the system has failed to achieve its main declared goal: that of (re)integrating beneficiaries in the labour market. The conditions associated with the provision of the GMI are not tailored to the needs of the beneficiaries, but rather seek to impose a 'one-size-fits-all' policy that ignores the regional and local context. The policy entirely ignores two central features of the Romanian labour market: a strong rural-urban divide that impacts on the availability of jobs in a specific area, and the lack of geographical mobility of the labour force, as affordable transport options remain unavailable in many areas. These two aspects mean that the policy goal of the GMI is unachievable in most situations and irrelevant for the vast majority of its beneficiaries, who are forced to rely on informal work or, especially in rural areas, on precarious contractual day-labour in agriculture (Law 52/2011). Given that since 2015 GMI beneficiaries can formally receive income from contractual day-labour while still drawing social assistance benefits, as long as they perform compulsory community work, they are able to maintain their health insurance in the public system. Thus, rather than providing support for beneficiaries to enter the labour market, the GMI functions as a mechanism for exercising control and disciplining the undeserving poor (Arpinte, 2019), forcing them into precarious day-labour (Raţ, 2018, 2019).

In a similar vein, the means-tested family allowance for low-income parents with dependent children, introduced in 2003 as an emergency governmental ordinance (O.U.G. 105/2003), provides for relatively low benefits. The allowance is conditional on regular school attendance, and since 2011 goes so far as to cut benefits in situations where school-age children miss more than twenty hours of classes. As a consequence, the most deprived families from marginalised communities, often of Roma ethnicity, who lack the resources to financially sustain the schooling of their children, have lost eligibility for benefits (Raţ and Szikra, 2019). Single parents are entitled to slightly higher amounts, but there is no further differentiation according to children's age or the housing situation of the family, which means that rural households facing severe housing deprivation have to make ends meet with the very same amount as families with inherited home-ownership in more affluent urban areas. Moreover, the benefit has a ceiling at the fourth child, meaning that families with five or more children receive the very same amount as those with only four. This bias against large families contrasts with family policies in other countries from the region, such as Hungary and Poland (Raţ and Szikra, 2019), and impacts on the adequacy of redistribution, especially for low-income Roma families, who have more children on average than the majority of the population and face manifold barriers in access to child care services and education (Romanian Government, 2015a, Horváth, 2017).

We used Amartya Sen's (2000) concept of "adverse inclusion"[10] to synthetically present the ways in which regulations relating to GMI and means-tested family allowance may hinder the provision of social rights for disadvantaged families, especially Roma families from marginalised and severely impoverished areas, and enforce stigmatising forms of behavioural control (see **Table 3**). The political rhetoric on "deservingness" translates into specific eligibility criteria and conditions, most importantly proof that an effort is being made to improve "employability" through schooling, vocational training, and regular job-seeking, which nonetheless turn into barriers to access for those who lack the minimum resources to participate. At the same time, the over-bureaucratisation of welfare administration, coupled with the low literacy of claimants and hardly any legal support provided to them through the maze of various institutions, often leads to the exclusion of the most disadvantaged (Bojincă, 2009; Arpinte, 2019; Raţ, 2019; Ţoc and Buligescu, 2020). A critical reading of welfare regulations reveals that cost-containment, labour-force "activation", control over and disciplining of beneficiaries have underpinned these throughout the past twenty years, and their effects on poverty-reduction have remained very modest.

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9 Ministerul Muncii, 2020, Salariul de baza minim brut pe tara garantat in plata, in perioada 2000-2018, Available here: https://mmuncii.ro/j33/images/ Date_lunare/s1-18.pdf. The value of the 2020 gross minimum wage was extracted from the following document: https://mmuncii.ro/j33/images/ Date_lunare/Sal_min_2020.pdf (accessed: 15 September 2020).

10 "Adverse inclusion" is a concept introduced by Amartya Sen (2000) that draws attention to the unfavourable effects of so-called social inclusion policies that *de facto* hinder the access of the most vulnerable and/or impose conditioning that worsen their situation of deprivation.

Table 3
Forms of adverse inclusion in the main means-tested income support benefits

Regulation	Period	Underlying idea of "deservingness"	Bureaucratic rationale	Effects
Guaranteed Minimum Income Law 416/2002				
Informal day-labour imputed as a source of income	2002-2015	The most needy, those unable to work, should receive the benefits	Cost-containment	Seasonal variation in the number of beneficiaries Roma in rural areas suspended from receiving the benefit during the months of seasonal work
Amount of the benefit does not depend on housing situation or home ownership	2002-present	Owing or renting a house is seen as an individual "merit"	Social housing is a distinct programme under the responsibility of local governments	Very limited poverty-reduction effect in the case of those suffering from housing deprivation, which include Roma
Obligation to present a monthly certificate from the county labour office	2002-present	Willingness to work and maintain "employability" through vocational training	Labour force activation Discipline beneficiaries	As labour offices are located only in the larger cities, beneficiaries from rural areas are supposed to pay transportation costs and those from remote areas face very difficult access
Eligibility conditioned by no unpaid public taxes or penalisations	2010-2014	Rights must be balanced by responsibilities & duties	Cost-containment	Criminalisation of poverty
Obligation to perform community work (exception applies to those caring for children or other dependent family members)	2002-present	Rights must be balanced by responsibilities & duties Maintain morals and "employability"	Using the labour power of GMI beneficiaries Discipline beneficiaries	Persons who are *de facto* unable to undertake community work (poor health, spatial marginalisation, etc.) lose the benefit
Obligation to accept the first job offer	2018-present	Willingness to work	Labour force activation	Persons who are *de facto* unable to accept the job (poor health, distance from job, family obligations, etc.) lose the benefit
Means-tested family allowance, Law 177/2010 (initially O.U.G. 105/2003				
Regulation	**Period**	**Underlying notion of "deservingness"**	**Bureaucratic rationale**	**Effects**
Regular school attendance	2010-present	Rights must be met by responsibilities & duties	Discipline parents	Families living in severely impoverished and spatially marginalised areas do not have the resources to comply and lose the benefit

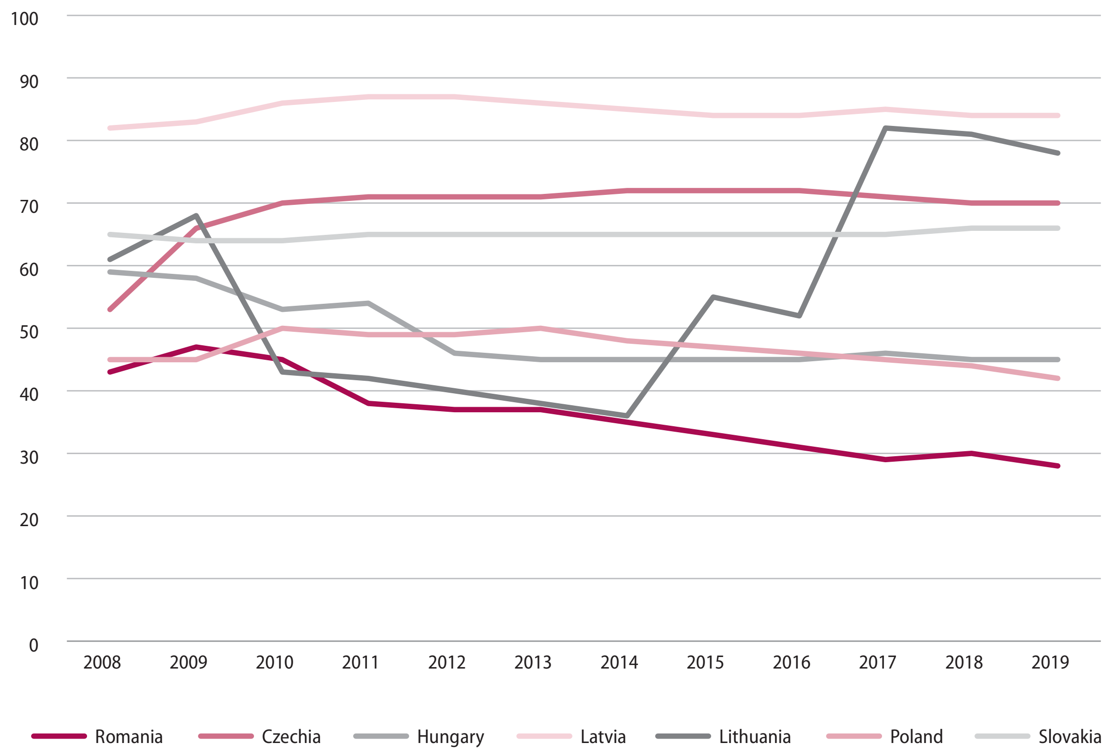
Source: Authors' own synthesis.

4

SOCIAL PROTECTION OF THE UNEMPLOYED

Unlike the GMI, the unemployment benefit system is financed through social security contributions levied on wage-earners. However, similar to the GMI, the generosity of unemployment benefits is linked to the ISR, which has led to a constant decline in the net level of unemployment benefits in the past decade. In addition to the decline in the generosity of the system, criteria determining eligibility for unemployment benefits have also been "streamlined" in an effort to further reduce already low levels of registration. After more than 60 legislative acts passed between 2002 and 2020 targeting the unemployment system, in its current form unemployment insurance pays meagre benefits under almost draconian eligibility criteria. Benefit levels amount to RON 375 for an unemployed person with at least one year of employment experience with the value of the benefit increasing in tandem with years of experience. The period over which benefits can be drawn is also conditional on the length of contributions paid into the social security system, with benefits being stopped in situations where the unemployed refuse offer of a job or fail to attend monthly meetings at the public employment system where they are registered. The tendency to streamline unemployment expenditures and restrict access to benefits is common across the majority of the CEE member states (Kuitto, 2016b). However, as **Figures 10** and **11** below show, the consequences for generosity of benefits are much more drastic in Romania in comparison to any other country in the region. If in 2009 the net replacement rate of unemployment benefits in Romania was similar to the level in Poland, in the aftermath of the economic crisis the level of benefits in Romania has been in a free fall (see **Figure 10** below). This is also evident in comparisons between unemployment benefit levels and the minimum gross wage. As **Figure 11** shows, while in 2005 unemployment benefits for a worker with experience covered 76 per cent of the minimum gross wage, by 2019 the ratio stood at a mere 24 per cent.

Figure 10
Net replacement rate (previous income) of unemployment benefits for a single person without children



Source: OECD Social Protection Dataset.

Figure 11
Unemployment Benefits Relative to the Minimum Gross Wage (left axis) and Real Value of Unemployment Benefits: 2005-2019

Source: Tempo online, 2020. Authors' own calculations and graph. *Note: *e* and *we* denote people without any years of experience and with years of experience, respectively.

5

BRIEF ANALYSIS OF OTHER DOMAINS OF THE WELFARE STATE

a. Family policies. Overall, there is a strong bias towards middle-class families, as spending on earnings-related child care leave benefits is more than ten times higher than total spending on means-tested family allowance (see Figure 3). Universal child allowance, despite its popularity, remains a costly component of social protection. Nonetheless, based on the Polish experience of successfully minimising child poverty via the new universal family allowance there (500+ program), and the collateral societal benefits of universal provisions (e.g. reinforcing willingness to support the welfare state), increasing the universal child allowance might be a viable policy option to support low-income families with children. Laying down conditions for the means-tested family allowance on school attendance fails to ensure school participation among the most disadvantaged and it furthers deepens their level of deprivation by denying access to benefits.

b. The pension system is a two-pillar system, with compulsory public and private components and a third, optional, private layer. Inequalities in the public pension system[11] are higher than the EU average, as the highest 20% of pensions are more than four times higher than the lowest 20%. There was no minimum guaranteed pension before 2009, leading to high poverty rates especially among the elderly from rural areas, many of whom receive meagre pensions as former agricultural workers. Dualisation is evident, as the pension system discriminates between a top tier of special pensioners (e.g. judges, prosecutors, army officials) whose non-contributory pensions are subsidised through the general state budget, and those receiving a social pension. For example, in 2020 the pension of a prosecutor is on average 14 times the level of the average pension, while the level of the social pension is about 51 per cent of the average. At the moment this was being written (September 2020), the guaranteed minimum pension was RON 704, i.e. below the threshold of monetary poverty for a single person[12], and almost 950,000 pensioners were receiving that amount as of August 2020. Poverty rates among the elderly have remained higher than the EU average, and this also reflects large gender discrepancies in terms of old age poverty, ranging all the way up to 30.4% for women over 65 and 17.3% for men, as compared to 18.1% and 13.6%, respectively, in the EU on average (Eurostat dataset, September 2020).

c. Social housing. There is an alarming deficit of public and social housing: only 1.5% of the housing stock is earmarked for state subsidised housing (including social housing), while more than 95% is in private hands. Responsibility for social housing is assigned to local governments, but these often lack the resources and know-how to expand availability and improve access. In 2017, 17% of the total population faced severe housing deprivation (FEANTSA). The National Housing Agency runs its own housing programmes, but it can scarcely cover this shortage (Teșliuc *et al.*, 2015). Institutional discrimination and forced evictions are regularly reported by human rights watch groups[13], affecting especially the low-income Roma and perpetuating their historical social and spatial marginalisation (Vincze and Hosu, 2014; Swinkles *at.al.*, 2016; Teșliuc *et al.*, 2016).

d. Social protection for persons with disability. The Framework Law on the Social Protection of Persons with Disabilities dates back almost fifteen years (Law 448/2006), providing for benefits, services, tax deductions and subsidies, depending on the type and degree of disability. However, these provisions are scattered throughout various institutional administrations and the bureaucracy and red tape involved in enacting certain rights (Moroianu-Zlătescu, 2015) can be overwhelming, or even prohibitive. An analysis of social and health-care services for persons with disabilities would go beyond the purposes of this paper, nonetheless, it is important to highlight the need to expand public subsidies and to improve availability, accessibility and affordability (Tudose, 2018). With respect to social benefits as such, it should be mentioned that there are no transparent procedures for establishing the values of benefits according to an adjusted social reference indicator based on the evaluation of specific needs of persons with disabilities and the cost of resources required to cover these needs. Likewise, no minimum basket of goods for persons or families living with different types and degrees of disability has been used so far.

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11 file:///C:/Users/HP/Documents/FES_2020/european-semester_thematic-factsheet_adequacy-sustainability-pensions_ro.pdf (accessed: 15 September 2020).

12 Consiliul Național al Persoanelor Vârstnice (the National Council of Elderly People) used for 2013 the estimations of the Institutul de Cercetare a Calității Vieții (ICCV) to approximte the minimum basket of goods for elderly persons. For a single elderly person, the minimum value needed for a decent life was RON 749/ month in urban areas, and RON 716/month in rural areas (see https://www.ces.ro/newlib/studii-ces/CNPV-Lucrare_cos_consum_2013.pdf, p. 21). It is noteworthy that the minimum social pension remained below these levels, at only RON 704/month, as of September 2020.

13 See, for example: Frontul Comun pentru Dreptul al Locuire, https://bloculpentrulocuire.ro/2018/06/27/frontul-comun-pentru-dreptul-la-locuire/ (Accessed: 15.09.2020)
Amnesty International, https://www.amnesty.eu/wp-content/uploads/2018/10/AIstopforcedevictions.pdf (Accessed: 15.09.2020), Council of Europe, Commissioner of Human Rights, https://rm.coe.int/the-human-rights-of-roma-and-travellers-in-europe/168079b434 (Accessed: 15.09.2020).

6

MACRO-ECONOMIC RELEVANCE OF INCLUSIVE SOCIAL PROTECTION SCHEMES – Case study

Increasing the Social Reference Indicator (ISR) will result in a proportional increase of social assistance benefits calculated directly on the basis of this indicator (unemployment benefit, family support allowance, child care leave benefits, benefit for disabled persons, social aid for the guaranteed minimum income).

Calculating on the basis of sums paid as social assistance benefits in 2019, increasing ISR from RON 500 to RON 1200 would mean an increase of social benefits to a tune of RON 10.4 billion or 0.99 percent of GDP (2019). Since raising ISR influences only 8.6% of the total social assistance payments, this would lead to a 9.1% increase in total spending for social assistance.

Table 4
The impact of increasing ISR from RON 500 to RON 1200, based on 2019 budgets

	Total sum transferred in 2019	Sum of payments resulting from increasing RSI
Unemployment benefit	591	1,419
Family support allowance	363	871
Child-care leave benefits	4,244	6,433
Stimulant for early return to work from child care leave	690	1,657
Social assistance benefits for the guaranteed minimum income	555	1,332
Disability benefits	3,697	8,872
Total	**10,140**	**20,584**
Increasing		10,444
As a % of GDP		0.99%

Data source: National Agency for Payments and Social Inspection (Report regarding Main Social Assistance Benefits 2019), Ministry of Public Finance (Budgetary Execution 2019)

To assess the macroeconomic impact, we have to take into account the consumption pattern of the Romanian population in general and of those persons who benefit from social assistance in particular. We will start with the premise that increasing ISR from RON 500 to RON 1200 would mean an increase of household incomes equivalent to 0.99 percent of GDP, as explained above. In theory, these supplementary resources will stimulate the demand for consumption, thus contributing to economic growth if this demand is met by domestic activity.

In the last three years, the Romanian economy saw a relative stabilisation of macroeconomic indicators, which eases the task of calculating the impact of a budgetary stimulus on the economy. At a national level, the marginal propensity to save (MPS)[14] was 10.4% in the last three years, the marginal propensity to import (MPI)[15] was 49.7%, and the marginal tax rate (MTR)[16] 7.7%. In 2019, the values of the three indicators were 13% (MPS), 40.9% (MPI), and 8.7% (MTR). These structural indicators should allow one to calculate a multiplier representing the impact of increasing social assistance payments on the economy, but before undertaking this estimate we would like to make some observations.

14 Calculated as the difference between GDP growth and final consumption growth, as a percentage of GDP growth.
15 Growth of imports of goods and services, as a percentage of GDP growth.
16 Growth of taxes on product, as a percentage of GDP growth.

First, we should emphasise a factor which is specific, but important in this equation: the fact that many families benefiting from social assistance do not have a consumption behaviour equivalent to the pattern resulting from the analysis of Romanian macroeconomic indicators, because the share of low-income families in the total number of social assistance beneficiaries is much higher than the average per economy, and these families have a marginal propensity to save that is close to zero. On the other hand, the unemployment benefit, the family support allowance and the guaranteed minimum income, which are directed mainly towards low-income families, between them only account for 15% of the social benefit payments calculated on the basis of RSI. The child care leave benefit, the stimulant for early return to work and the benefit for disabled persons are not means-tested, i.e. entitlement does not depend on low income. Still, taking into account the fact that the relative poverty rate was 23.5%[17] in Romania in 2018, we can assume that the share of social assistance payments to families under the poverty threshold is at least 35%[18].

Indeed, for the families under the poverty threshold, additional earnings are used to cover some of the basic needs, which is to say for consumption, resulting in a null marginal propensity to save. For instance, INSSE data for the category "unemployed" show that in the last three years 95.8% of their additional incomes have been spent, resulting in a marginal propensity to save of only 4.2%. Along the same lines, beneficiaries of guaranteed minimum income are expected to have a marginal propensity to save close to 0%. It is also true that, for vulnerable social groups, the highest share of consumption is directed towards food products from local agriculture and paying utilities, reducing the marginal propensity to import to that level. It is impossible to precisely assess the share of import goods and services consumed by low-income households, but we believe that the assumption that this is lower than the average per economy is justified. Also, the consumption structure of low-income families, especially those from rural areas, suggests that the marginal tax rate for them is lower than the average per economy, a result of the higher share of food products (having a lower VAT) in the basket of goods, but mostly due to acquisitions made in the informal rural economy.

Thus, a calculation of the multiplier that allows an assessment of the impact of increasing RSI on the economy has to take into account the particularities of the group that benefits from payments calculated on the basis of RSI before considering the macroeconomic structure of Romania. In other words, the first level of using resources – the beneficiaries of payments calculated on the basis of RSI – has a pattern of consumption and saving different from the general Romanian population, the latter being relevant starting with the second level of using resources. Thus, considering the particularities of social aids beneficiaries at the first level of consumption and the macroeconomic structure of Romania starting with the second level of consumption, based on the last three years' indicators, we can estimate the multiplier showing the extent to which the growth of household incomes due to increasing RSI will stimulate economic growth to be around 0.93[19], in other words it is to be expected that the growth of social benefits stemming from increasing ISR is almost one-for-one reflected in economic growth. Starting from the assessment that social assistance spending will grow by 1 percent of GDP, due to increasing ISR from RON 500 to RON 1200, a positive impact on the economy of around 0.9 percent of GDP may be expected.

Table 5
Estimate of THE multiplier applicable to increasing social benefits

	First level of consumption: assumption for families benefiting from social assistance benefits[20]	Starting with the second level of consumption: average 2017-2019 macro indicators
Marginal propensity to save	6.8%	10.4%
Marginal propensity to import	41%	49.7%
Marginal tax rate	6.4%	7.7%
Multiplier without taking into account the consumption pattern typical of the first level		0.48
Multiplier taking into account the consumption pattern typical of the first level		0.93

Data source: INSSE (Gross Domestic Product, Total Monthly Average Incomes and Total Monthly Average Spending for a household, by social groups)

17 https://financialintelligence.ro/fundatia-friedrich-ebert-stifung-cosul-minim-pentru-un-trai-decent-creste-cu-28-la-6-954-lei-luna-in-septembrie-2019/ (Accessed: 15 September 2020).

18 The cumulative income of a family composed of two parents and two dependent children can be calculated as the value of social aid (RON 442/month), two universal child allowances (RON 168/month) and the means-tested family allowance (RON 122/month).

19 Since social assistance payments are transfers from the budget to households, they are not tantamount to GDP growth per se. The positive effect on the economy appears at the moment of the consumption covered by domestic production. Consequently, the formula applied to calculating the multiplier is: multiplier = 1 / (MPS + MPI + MTR) – 1.

20 The MPS of families benefiting from social aid was calculated using the following formula: 35% (share of social aid to low-income families) * 0% (families failing to save) + 65% (share of other social aid) * 10.4% (MPS at the macroeconomic level).
The MPI was calculated using the following formula: 35% (share of social aid to low-income families) * 25% (assumption) + 65% (share of other social aid) * 49.7% (MPI at macroeconomic level).
The CMT was calculated using the following formula: 35% (share of social aid to low-income families) * 3.9% (assumption) + 65% (share of other social aid) * 7.7% (CMT at macroeconomic level).

Of course, we have to take into account the fact that the main function of social transfers is not to stimulate the economy and, along these lines, compared to the impact of other uses of budgetary resources, such as investment (which by definition involves a higher multiplier and thus a greater impact on the economy), is of limited relevance. The main take-away of the exercise presented in this section is that, given the consumption and taxation pattern of Romania, increasing ISR will have a positive impact on the economy, at a level comparable to the increase in social payments.

CONCLUSIONS AND RECOMMENDATIONS

In this report, we have focused on social protection benefits aimed at safeguarding the well-being of persons and families who face income loss or poverty due to unemployment, structural disadvantage, old age, or other situations involving vulnerability. We provided evidence for the very low adequacy of social assistance benefits and the erosion of their generosity relative to the risk-of-poverty monetary threshold and the minimum wage. Furthermore, we have assessed the macroeconomic impact of increasing the value of the benchmark Social Reference Indicator (ISR), arguing that it would have a positive effect on economic growth to the tune of an estimated 0.9% of GDP.

However, an increase in the ISR on its own cannot solve the complex issues of regulatory design and administration of the Romanian welfare state. Based on our analysis of the functioning of the social protection system, the following policy recommendations emerge as both imperative and economically feasible:

- A clear indexation procedure of the ISR should be established in relation to the threshold of monetary poverty and the minimum net wage, and indexations should take place at least annually.
- The major means-tested income support benefits, namely the guaranteed minimum income, the family allowance for low-income families, and the minimum social pension should be indexed in relation to the ISR, at least annually.
- The values for GMI should be differentiated based on the housing situation of claimers. Those lacking ownership of their homes or who are de facto homeless should receive either social housing or higher benefits so as to meet their housing needs.
- Local welfare offices should map out persons and families facing social marginalisation (Law 116/2002) and adopt an integrated approach on providing support, not only cash transfers, but also in-kind benefits and services. To this end, local governments and county-level directorates should increase their capacity to identify and address situations involving social marginalisation by hiring qualified personnel and earmarking adequate budget resources for basic in-kind benefits and services such as social housing, social canteens, child care facilities, job-placement and other services. Outsourcing these services to the private sector (even non-profit organisations) bears the risk of "creaming effects", i.e. the most difficult and resource-consuming cases are left unaddressed, as the time and effort required is too much for the civil sector to handle.
- An integrated approach on social assistance for precarious persons and families moving in and out of benefits requires both integrated, complex services at the local level, and a national legislative framework that ensures the continuity of basic collateral provisions such as health insurance, subsidies for housing and heating, etc., for transitional periods. Consequently, there should be a delay of at least three months between the moment one no longer qualifies for the GMI and the point in time when collateral provisions such as health insurance, housing or heating subsidies are discontinued.
- In a similar manner, a period of accommodation should be provided in the event that someone from a GMI beneficiary family finds employment. We suggest that receipt of GMI should continue for at least one month after persons no longer qualify because they find employment so as to ensure a smooth transition from GMI & precarious work to wage-earner status.
- Parents who are not entitled to paid child care leave for their children below two years of age (three years in the case of children with disabilities) should receive financial support as *parents and carers*, so as to protect families with small children against poverty.
- Penalisation of families who cannot ensure children's regular school attendance should be eliminated. Instead, educational support should be provided via subsidised after-school programmes and by enlarging the network of school mediators in marginalised communities.
- Access to and the affordability of subsidised child care (creches and kindergartens) should be improved, especially in rural areas, so as to relieve older siblings from the responsibility of taking care of the small ones while their parents are working. The monthly voucher for kindergarten attendance granted to low-income families serves as a fair incentive, but barriers to access educational services need to be removed.
- Housing-first policies should be integrated within social protection measures, especially in the case of the most vulnerable.
- Central budget financing should be provided in order to increase the stock of social housing and ensure fair criteria of access for the most vulnerable.
- The unemployment benefit system should be redesigned by making entitlement conditions more accessible, cancelling the current system of sanctions, and developing active labour market policies that facilitate regional mobility. As OECD (2019) shows in the case of Latvia, a country with similar regional disparities to Romania, active labour market policies that offer support in accepting distant job offers has increased job-related mobility among unemployed persons.

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IMPROVING SOCIAL PROTECTION IN ROMANIA

As compared to the EU-average of 27% of the GDP, Romania spends only around 15% of the GDP on social protection

Only one-fifth of children living in low-income households in Romania avoid poverty as a result of social transfers, as compared to 40% in the EU on average

The value of the social reference indicator used as a benchmark for social benefits has remained constant at 500 lei since its introduction in 2008. The increase of the social reference indicator to 1,200 lei would results in an estimated economic gain of 0.9% of the GDP

Income-support benefits, fair progressive taxation and better access to health insurance are necessary to foster labour market transitions from precarious employment to wage labour

Active labour market policies should replace excessive sanctions with stimulants for regional mobility

Social assistance benefits, including the minimum social pension, should be regularly indexed in relation with the evolution of the minimum wage

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