

THE STATE'S ROLE IN MAINTAINING WELFARE DURING A PERIOD OF TRANSITION

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In facilitating an efficient transition while reducing social costs, social policy plays an important role.

Social protection during a transition period must address several basic needs:

- **solving social issues specific** to the transition to a market economy and multi-party democracy;
- **eliminating or minimising the social costs of the economic reform** process associated with medium and long term sustainable development, in an environment which at the beginning of the transition period was of limited scope for economic action by the State, and the constraints imposed by economical priorities within the reform and restructuring process (macro stabilisation, liberalisation, privatisation, etc.).

In the context of transition, two social roles for the State can be identified:

1. Facilitating transition: creating a social environment favorable to transition, mobilising the social resources of the whole community in order to support the process of social and economic change, together with encouraging restructuring, motivating performance, positive restructuring of the work force, etc.

2. Compensation: minimising the social costs of the transition that would otherwise be borne unequally by the population.

Any economical and political reform process is inevitably associated with acute social issues. Progress in these circumstances depends on the way in which these issues are resolved: either positively or negatively, thereby triggering the reforming processes. For this reason, decisions in social policy can, for practical purposes, represent turning points.

Issues and social costs associated with reform processes

The issues and social costs refer specifically to the negative effects of the various processes that have influence on social and economic development in the short, medium and long-term. Over a period of time, these generate some social distortions that are increasingly difficult to correct, thus contributing to the costs of long term development.

The principal social costs associated with the transition in Romania refer to:

- a) impoverishment of large segments of the population;
- b) increasing social polarisation, resulting in adverse effects on the work force;
- c) increasing social anomalies.

a) *Impoverishment of large segments of the population*

One of the basic expectations of the community, during the transition period, was that the impact of the fall in their living standards, would be minimised. The first years of transition were associated with a rapid process of impoverishment of a large segment of the population. This process is not specific to Romania but applies to all countries in transition.

Using an established method to determine a family's needs by taking a basket of goods and services, ICCV has established two measures: viz. subsistence and quality of life.

In 1995, according to these measures, using AIG-CNS data, there were:

- 21.5% and 27.3% of families and individuals respectively, living below the poverty line;
- 43.4 % and 50% of families and individuals respectively were living below the poverty line.

Note: 1. A weighting of 1 for the head of family aged under 60, 0.7 for a second adult and 0.8 for children over 14 years or head of family aged over 60 and 0.6 for children under 14 years was used

2. Total expenditures of a family as a measure of welfare were taken into account

Source: ICCV.

Table 1

Proportion of people, children, old people, under the relative poverty limit

	Proportion out of total (%) under the relative limit	The relative poverty limit, calculated as a percentage of the consumed average expenses for an adult (caloric scale CNS)		
		40%	50%	60%
1995	total people (including children and the elderly)	7.9	15.7	25.2
	children under 15 years	11.9	22.6	34.7
	elderly people of 60 years and over	2.6	5.9	10.9
1996	total people (including children and the elderly)	6.4	13.8	23.3
	children under 15 years	9.7	20.3	32.7
	elderly people of 60 years and over	1.6	4.3	9.1

Source: CNS - AIG.

This deterioration of living standards, which has increasingly affected Romanian society, was due, primarily to the following factors:

- **a rapid erosion of real personal income:** especially of wages/ salaries and transfer payments, and reductions in subsidies on a majority of goods and basic services;

- **rapid increase of unemployment:** the maximum unemployment rate having climbed from 3% in 1991 to 10.9% in 1994. Another alarming aspect was the rate of unemployment among young people, this rate being approximately double the national average with about 20% recorded during the period between 1994 and 1997, with a maximum of 22.5% in 1994. A further contribution to increasing poverty has been the emergence of unemployment in women that was generally higher than for men, and disproportionately higher for young women than for young men.

- **increasing long-term unemployment:** the incidence of long term unemployment that is continually increasing. By 1996 approximately 30% of all unemployed had been without work for over two years.

Increasing poverty and a constant erosion of living standards are not only confined to minority groups of societies in transition. They include, in varying degrees, major segments of the population. Thus the need for social protection is not limited strictly to certain disadvantaged categories, although we can identify those vulnerable and at high risk – such as the unemployed, single mothers, families having more than two children and unskilled workers. In contrast to these groups, despite a more rapid erosion of pensions vis-à-vis salaries, those who had retired proved less exposed than average to impoverishment, not only in Romania, but in all countries of Central and Eastern Europe.

According to the data of the *Ancheta Integrată a Gospodăriilor*, for 1995 and 1996, the number of children in the first category of income is over four times larger than the number of children in the fifth category: 4.5 times larger in 1995 and 5.5 times larger in 1996. Over 60% of the total number of children belong to families in the first two income categories: 61.2% in 1995 and 63.6% in 1996 (CNS-AIG data).

b) *Increasing social polarisation*

The transition has been mainly characterised by a fast growing disparity of income, partly desirable, justified and functional, but then also partly unjustified, discouraging, and giving rise to the risk of social polarisation on a serious scale.

An OECD report (Romanian Economical Analyses 1997) shows that for 1994 a Gini inequality coefficient of 30, decreased in 1996 to 28 which was the 1992 level. These figures deliniated on the Gini inequality coefficient do not reveal the growing imbalance of income, now so great that they affect economical growth and create grave social tensions.

If on the whole no critical decisions were made in this respect, except to discuss the serious consequences of social polarisation, there would still be some aspects which demand careful consideration.

- **A more evident polarisation was between an important segment of the population which rapidly became extremely poor and a smaller**

segment which within a few years, succeeded in accumulating large fortunes.

The most worrying aspect is the large proportion of children living in adverse conditions which affect their development. Another concern is the high proportion of young people unable to find work on the work market and are therefore unable to start their own families.

• **Differences in income at variance with the community's view on morality and social economical functioning.** Two similar situations can be quoted:

Differences in salary without economical justification. The breakdown of income based on economical performance criteria, acceptable to the community, but affecting the operations of restructuring and the process of re-establishing the economy, did not happen according to expectation.

Differences in salaries emerged which were not based on economical performance criteria and which generated dissatisfaction at all levels of the community.

Salary levels which were based on individual negotiations within different sectors and companies, were **disproportionally unfair to different groups of employees**. The highest salaries did not necessarily go to the branches and companies who had proved themselves to be economically efficient, but to the autonomous Regies and monopolies, no doubt due to the powers used to curb trade unions, and to political pressure. This situation brought about not only artificial price rises (and thus higher costs for the whole community), but it also led to an impasse which affected companies working in a competitive field.

Such a situation has the power to generate spiralling inflation for the whole community, but particularly for those social groups who have no trade union or political power behind them.

Children – the most disadvantaged social group of the transition

Children in Romania represent the segment of population which probably has suffered most during the transition. The pro-birth policy of the communist regime: viz. limited access to contraception, and financial support to large families, produced a "u" curve in the birth rate, and the same thing happened to family income. Those on higher incomes managed to control family size, while poorer families increased, i.e. family size and income were correlated, as was the case with some specific social groups including the gypsy population. A similar correlation can be found at regional levels. Following the collapse of salaries and family benefits, larger families on low incomes suffered disproportionately. This development has resulted in a general perception that these groups are irresponsible and accordingly, after 1989, there has been no political support for monetary transfers for such families. (C. Zamfir, 1997).

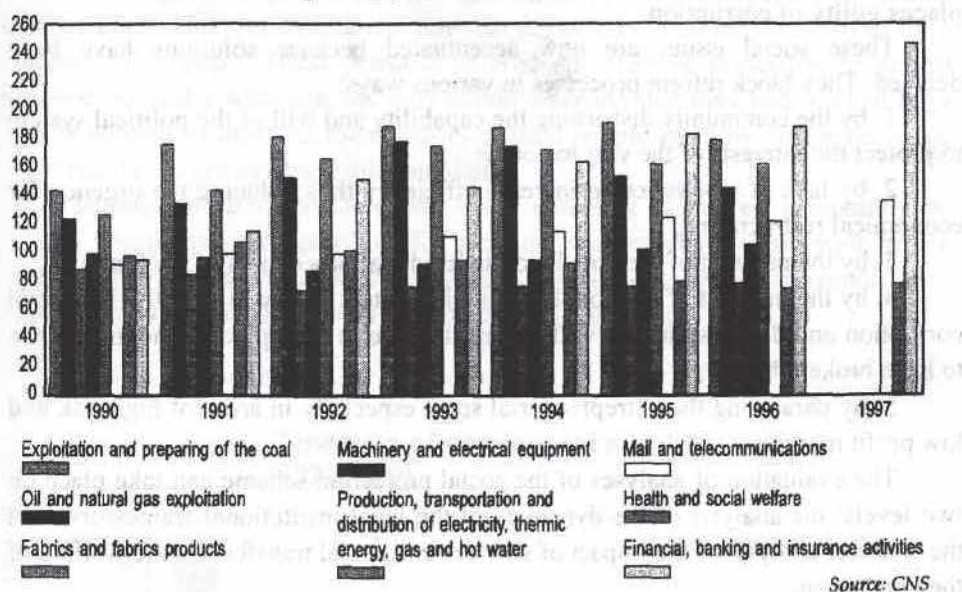
Another issue is the emergence of more marked differences between legal and morally acceptable incomes (salaries, profits from legal enterprise, etc.), often very modest, and incomes gained just within the law or outside it, often huge when compared with the latter. The extent of corruption and fraud plays a large role in demoralising the community as a whole. Incomes just within the law have increased due to the lack of rigorous and coherent legislation, especially in the area

of taxation, but also as a result of the State's incapacity to prevent, respond to and punish those found guilty of corruption or dealings on the black market..

• **Reduction in the number of workers who benefit from existing social protection, with an increase in the number of people involved in occasional jobs, often just within the law, but who remain uncovered by social insurance.** The increase in the number of this category of workers is reflected in the increase in contract workers who do not make provision for any contributions to social insurance. The situation is worsening if one takes into account the fact that these trends are set against a background of aggressive entrepreneurial activity.

Chart 1

The monthly nominal net average salary income compared to the medium average salary of economy - % -



Such a phenomenon will increase the future costs of social protection: a larger segment of the population being uninsured. The increase in the number of short-term contract jobs, or part-time jobs, together with a growing relative reduction of the self-employed, suggests that, in the future, a fast growing section of the actual work force will not benefit from proper social insurance, having stopped paying contributions for social benefits. Such costs will no doubt be passed on to the rest of the population whether they have contributed or not.

Table 2

Rate of increase in the number of employees, compared to the previous year (%)

1991	1992	1993	1994	1995	1996	1997
-8.1	-11.4	-3.7	-2.9	-2.5	-2.5	-13

Source: CNS.

• *An increase in the polarisation of opportunities particularly with respect to education.* Starting with 1990 two things are clear: the number of university graduates increased, and so did the number of illiterate people due to the growth of truancy and disinterest, especially at secondary school level.

c) *Another cost of transition has been the increase in crime,* highlighted by the high rate of convictions. (This rate increased threefold during 1990-1997.) The proportion of convicted minors and repeat offenders doubled, while the number of thefts and robberies almost tripled during this same period. There has also been increased corruption, and the public have resorted to rather desperate forms of protest. This has resulted in a lack of trust in those connected with the legal or other related professions and structures; in judicial procedures; and in the State's capability to control and punish those in high places guilty of corruption.

These social issues are now accentuated because solutions have been delayed. They block reform processes in various ways:

1. by the community distrusting the capability and will of the political system to protect the interests of the vast majority;
2. by lack of motivation to increase efficiency thus reducing the urgency for economical restructuring;
3. by the mistrust of the population in juridicial procedures of the State;
4. by the mistrust of the population in the State's ability to effectively control corruption and demonstrate the will to punish those in high places who are known to have broken the law;
5. by paralysing the entrepreneurial spirit especially in areas of high risk and low profit margins.

The evaluation of analyses of the social protection scheme can take place on two levels: the analysis of the dynamics of the legal institutional framework, and the concrete analysis of the impact of services and social transfers on the welfare of the population.

DYNAMICS OF THE SOCIAL PROTECTION SCHEME

Legislative dynamics in the field of social protection

An analysis of a legislative framework is essential in a period of rapid change where the old socialist forms of welfare are replaced by new ones, suitable for a market economy.

Some components of social protection schemes, even after 1989, have to a large extent kept a legislative structure. Some have suffered fundamental changes ever since the beginning of the transition period because of their inadequacy to deal with new social realities, while other structures, non-existent under the socialist

regime, were established as a response to the new social problems that Romania faced in the period of transition.

Pensions and social insurance schemes

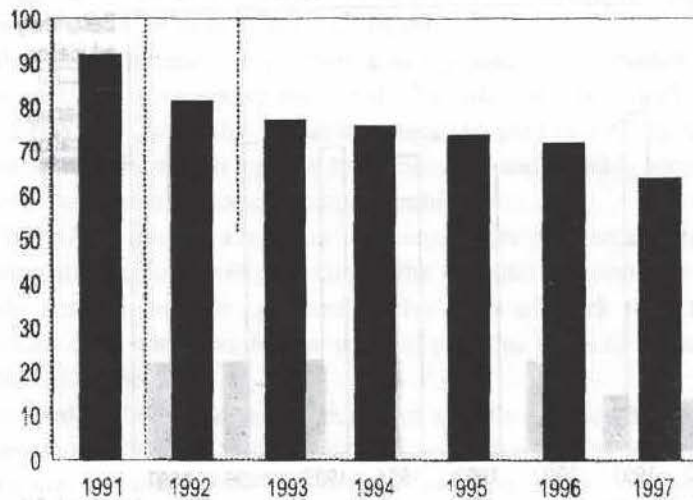
The pensions' scheme inherited from the former regime, proved to be quite well structured, at least in the initial phases of the transition, and covered most of the population.

Besides the pensions that were given according to age, redundancy, and incapacity, (generous in that they covered accidents at work), the pension system included two other types. There was a non-contributory one granted to orphans, veterans and war widows (IOVR pensions) and social pensions, granted to all those of retirement age who did not have the right to a social insurance pension (meaning they had not worked for a minimum ten-year period), but had been employed for a minimum of 5 years. These pensions offered an effective protection to almost everyone no matter what age, the only condition being that they had worked for a specific amount of time. As the numbers of such people are now on the decrease, such a regulation grows less significant daily.

The only exception to the above is the **category of retired peasants**. The level of social insurance pensions for peasants was especially low well before 1989, and has not improved since. They are still extremely low when compared to other categories of pensions, even the non-contributory kind.

Chart 2

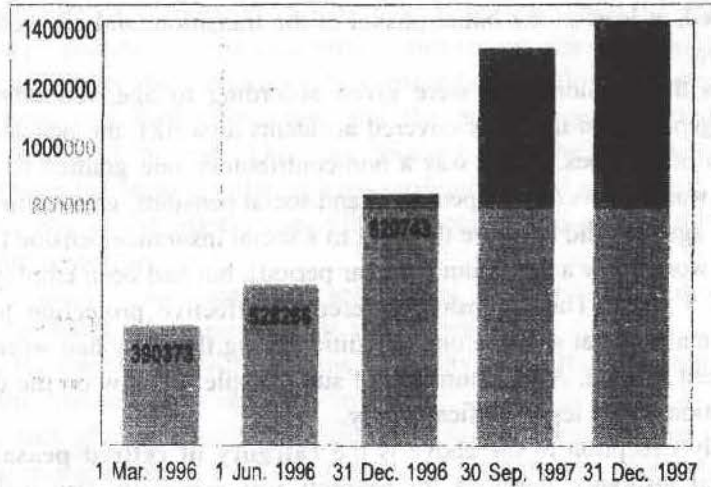
**Dynamics of employees' number
(1990=100)**



Source: CNS

Chart 3

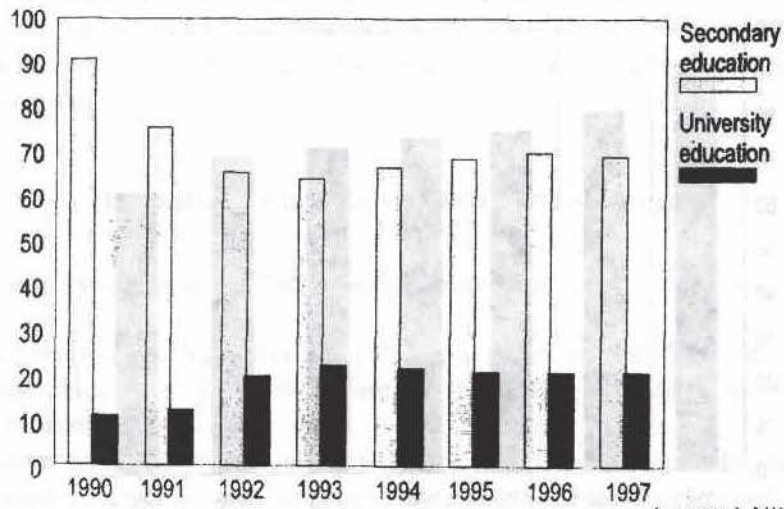
Number of civil contracts concluded:



Source: MMPS

Chart 4

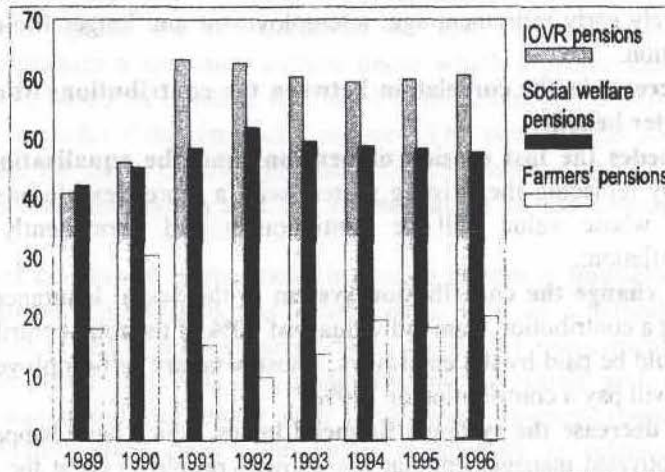
Overall school attendance rate - % -



Source: LNS

Chart 5

**Relation between different pension types
and the social welfare average pension
(excluding farmers)**



Source: Statistics Annual Book - CNS

The number of retired people, either in absolute terms, or in comparison with the active work force, is increasing. In 1997 the number of retired people benefitting from the social insurance scheme exceeded the number of employees, in absolute terms, by 400,000. This increase in the number of retired people is due in part to the great number of people taking early retirement, an occurrence that started from the beginning of the transition period (in order to absorb part of the potential unemployment). Because of this, the need to change the social insurance pension scheme has become even more urgent.

Although the initiative to promote a new pensions' law existed even from the beginning of 1991, it was postponed until 1996 when the first draft was produced, based on the White Charter for Social Insurance (adopted in 1993 by the Labour and Social Protection Ministry). It was due to be discussed and possibly adopted in 1998.

The actual scheme presents some problems:

- **First of all**, there is a tenuous link between the pension and the contribution made during the working-lifetime, due to the fact that pensions are calculated by taking into account the best consecutive five years of work from the last ten, a method which does not allow for the work of previous years to be considered for a specific level of benefit.

- **Secondly**, the lack of a computerised system to index pensions. There are lags between increases in prices and the compensatory pension increases and disproportional low increases for higher pensions. This situation allows the pension adjustment to become a hostage to political fortune. During the transition period, this last aspect created a larger erosion of pensions which lagged behind prices. On

the other hand, there was an equalisation of pensions and a weakening link between initial contributions and the actual benefit.

What is new about the draft Pensions' Law ?

- **It provides a gradual move towards a later retirement age**, thus attempting to surmount problems relating to the increase of dependency, due to the present relatively early retirement age, unemployment and longer life-expectancy for the population;

- **An increase in the correlation between the contributions during active life and the later benefit;**

- **It impedes the fast erosion of pensions and the equalisation of their distribution** by replacing the existing system with a more flexible one of points accumulation, whose value will be continuously and permanently adjusted, according to inflation;

- **It will change the contribution system** to the Social Insurance Pensions Fund by taking a contribution from individuals of 50% of the total contribution, the other 50% would be paid by the employers. Those who are self-employed or work in agriculture will pay a contribution of 100%;

- **It will decrease the system's financial losses**, which have happened either from lax, unmotivated management that has allowed people to cheat the system by obtaining unjustified pensions, and compensation for incapacity at work (for the moment these are paid directly from the State budget), or sick leave. These legislative inefficiencies which led to losses in the system will in the future be compensated for by handing over the responsibility to either the insurer or the employer.

Problems which the draft law faces:

- **It discriminates and fails to encourage the self-employed, which includes farmers.** Such people are obliged to pay a 100% contribution to the Social Insurance Pensions Fund, compared to only 50% in the case of employees. Failure to pay over 6 consecutive months, would mean that the particular person would be removed from the social insurance scheme, thus cancelling previous contributions without any right of retrieval. This system does not encourage people to join or stay within the scheme, so that the mandatory character of the insurance could easily become a fiction. Over a period of time, this could mean an increase in the segment of the population that remains uninsured: a segment which should be supported by a complementary system of social assistance with more modest benefits, shifting the responsibility to the State, and indirectly spreading the cost over the whole community.

- **By establishing a top limit when calculating the rate of pensions** for 2.5 gross average salaries, they probably had in mind the introduction of some form of **private insurance**, complementary to the State scheme. This provision for the population to join a private pension scheme comes from an economic rationale. The feasibility of such a solution is questionable, when you consider putting it into action. Firstly, a strong private sector has not yet been established. Secondly, there is still a need for effective institutional mechanisms which can obstruct corruption and the creation of monopolies in such systems. There is also a need to encourage good investment of such funds. The management of this kind of pension fund, that

substitutes the use of capital for solidarity between generations, highlights a difficult and sensitive problem of principle - and one that remains unsolved even in Western Europe.

Any anxiety felt in relation to the pensions system is well justified. The new law has also to take into account the eventual unrest due to the system's discrimination against the self-employed on low incomes. Also, the actual legislation stipulates a minimum income under which a person can benefit from social support, based on a means test, so it is important to conceive a pensions' system that includes those on social support. The principle of social solidarity cannot replace the one of contributing, but it can compensate for its oversight.

The protection system and the reintegration of the unemployed to the work force

Another component of the social insurance system is **financial support for the unemployed**. This system was introduced in 1991 as a natural follow up to unemployment raised to massive proportions during the economical restructuring process (completed in 1994). A credit system for small and medium-sized companies was introduced, along with professional re-employment support for young graduates, and others. The financial support is relatively generous, compared to other countries in transition, if we consider the period in which they were granted. Only the unemployment support granted for the first nine months of unemployment (initially 6, but now 9) is related to the level of contribution and wages. The professional re-training support, offered to young graduates from technical schools, high schools or universities is also non-contributory and comes out of the Unemployment Fund.

In 1997, the Government adopted new measures in order to make the restructuring of some large industrial plants and their branches socially acceptable. For example **in the case of mass lay-off of staff, compensatory redundancy payments of between six and twelve months average salary were offered in relation to the particular branch of the firm**. There were no effective programmes for advising those who wanted to set up their own business, nor were there plans for professional retraining. This led to accusations of discrimination by those who had been made redundant. The compensation was justified in terms of sustaining entrepreneurial initiative. Mass media information and investigation in the field by Social Research Institutes (among which was the ICCV) on the way compensation was used, seem to show that those who benefitted from such compensation favoured consumption rather than investment.

The final plans for the financial support for the unemployed included a series of **active measures** to encourage them back on the work market. Besides provision for active programmes of retraining, or professional re-qualification, it was also stipulated that grants would be offered to small and medium-sized companies to encourage them to take on the unemployed. Another measure, designed to stimulate employment of the young graduates, was to provide a subsidy in relation to salary during the first period of the employment.

Table 3
Proportion of different benefits and programmes for unemployed people
from the total of the Unemployment Fund

	1991	1992	1993	1994	1995	1996
Direct money transfers from which:	61.8%	78.8%	88.8%	88.2%	71.1%	58.5%
Unemployment benefit	61.8	70.8	62.1	60.7	28.6	24.3
Social aid	-	8	26.7	22.2	32.0	26.5
Professional integration benefits	-	-	-	1	8.3	7.7
House heating grant	-	-	-	4.3	2.2	-
Active measures, from which:	2.8%	1.5%	1.1%	1.4%	14.7%	11.1%
Subsidies of young graduated's salaries	0.9	0.7	0.5	1.1	0.6	0.6
Qualification and requalification of unemployed people	1.9	0.8	0.6	0.3	0.2	0.4
Credits granted to small and medium size companies	-	-	-	-	13.9	10.1

Source: *Statistic Annual Book 1997*. MMPS.

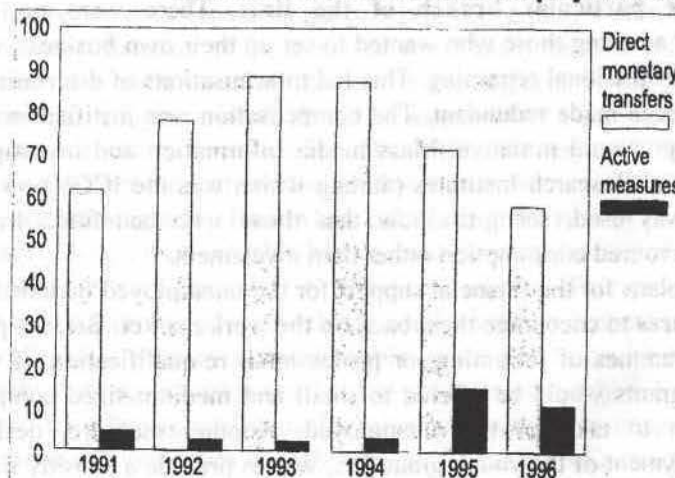
Table 4
Proportion of unemployed people included in the qualification/re-qualification
programmes out of the total number of unemployed people (%)

1991	1992	1993	1994	1995	1996	1997
3.1	4	4.2	2.1	2.3	3.1	2.7

Source: CNS.

Chart 6

**Proportion of the amounts allocated to the
direct monetary transfers and active
measures out of the total unemployment fund**



Source: CNS; MMPS

Only a small proportion of the total funds laid aside for support of the unemployed, has been allocated to these important programmes.

The unemployment rate increased from 3% in 1991 to 8.8% in 1997 (with a slow decrease during 1994-1996, from 10.9% to 6.6%) while the proportion of expenditure designated for **retraining or requalifying programmes** decreased from 1.9% in 1991 to 0.2% in 1995 (with just a 0.2% increase in 1996).

From the total of the unemployed, the proportion included in the retraining/requalification programmes is very low. It increased from 3.1% in 1991 to 4.2% in 1993, but decreased in 1994 to 2.1%. In 1997 it does not exceed 3%.

The lack of efficient programmes for reintegration on the work market is perceived more for long-term unemployment which is rising dramatically. In 1996, the proportion of those unemployed for over a year was 50.2% of the total unemployed, and two years later, the proportion was 30%.

Retraining programmes merely offer a chance of finding a job in another field, whereas the black work market offers a greater and safer possibility. Hence motivation to attend such programmes may not be high.

The main active measures to fight against unemployment and use of labour in 1997

In 1997, an extension of the legal framework was brought about in order to promote more efficient measures to fight against unemployment. Among these provisions were:

- supplementary facilities granted to small and medium-sized companies which ask for credits with low interest in order to create new jobs for the unemployed: increasing the reimbursement period from 1 to 3 years, granting some credits with good interest rates for establishing or developing co-operate associations and agree to keep the employees on for at least three years;
- increase of salary subsidy period for graduates from 9 to 12 months with a coverage of 70% of the net salary at the start of employment, with the provision that they will continue in the same employment for at least a period of 3 years;
- the granting of compensation to those whose individual work contracts will be cancelled following mass staff lay-off, applying the restructuring, privatisation and liquidation programmes in order to encourage entrepreneurial initiatives;
- the draft of the Law of Organisation of the National Agency for Professional Training and Employment was submitted to Parliament. This autonomous public institution will be managed by a three party board of directors and will organize and coordinate – at national and local levels – the employment skills and training activity;
- the Local Committees and the National Committee for Coordination of the Active Measures to fight against unemployment were established, having a role in the application of the active measure policies;
- the setting up of a local programme to fight against unemployment including a range of active measures among which are to: give financial support in the creation of new jobs in the public sector, advise on the setting up of small businesses, advise to small and medium-sized companies on drawing up a business plan, service plans and development in the local economy, create a business incubator, form job centres, form documentation and information centres about the job market etc. Such a programme was also specially established in the area of Valea Jiului following the closure of mines in that zone.

For the **Active measures programme to combat unemployment (PAEM)**, component of PHARE programme for Labour and Social Development, 1997 represented the final year. The programme was managed in Romania by FIMAN. Through this programme, which for three years, has financed and coordinated projects at local level, many things have been addressed such as those people looking for employment, as well as those interested or involved in promoting and developing the entrepreneurial spirit. PAEM activity in Romania has been concentrated around two main ideas: partnership and decentralization. Concerning partnership, the involvement in the PAEM structures, at different levels such as representatives of the Labour and Social Insurance Ministry, the Education Ministry, the trade unions, employers' associations and last but not least, – the local authorities able to put such projects into practice. Another condition needed in order to implement the projects was that of local initiative and participation (including the financial aspect), considering that by such involvement they would be better able to respond to the specific needs of the community. Due to the strong emphasis on local initiative, the programmes developed very differently; they covered projects in the field of education, counselling and mediating, retraining and professional orientation for trades needed for the local work force, or filling in gaps in certain trades, as well as supporting the entrepreneurial spirit. Another characteristic of such programmes was their focus on target groups, composed from segments of the population with the highest exposure to the risk of unemployment. Another less clearly defined objective was that of encouraging the development of institutional capacities for development so that they could continue such programmes after PHARE financing ceases. The strong regional peculiarities emphasised by the variety of projects has led to a lack of confidence due to their generalised implementation, regardless of the performances achieved at local levels. During last year, the PHARE programme had 60 local centres, whose activities included over 2,000 people, through which 30,000 unemployed people received assistance. It should be mentioned that not all the projects worked at the same standards of efficiency, and not all could sustain themselves after the PHARE financing ceased. The target groups were not always clearly defined and once defined, they were not fulfilled according to expectation. Implementing the same type of project had a result on the different standards of efficiency, according to the degree of opportunity within a certain economic and social environment, the performing level of the project and lastly the openness of dialogue between those responsible for its implementation. Considering everything, the PAEM experience proved that there are local capabilities to conceive and carry out active projects. Measures had been taken to support employment, in answer to the fluctuations in the work force.

Source: ICCV.

Health Insurance Scheme

A new component of health protection is **health insurance**. This Scheme was adopted only in 1997 (Law no.145/1997), when the public health service was already about to collapse.

The Health Insurance Scheme introduces a **change in the way health services are financed**. This is done by introducing a fund collection system, at local level, which replaces the more rigid system of financing from the State budget. The flexibility of this system for financing the Health Service will lead to an increase in the quality of medical services and the possibility of developing a private health system which would be available for all the population.

Transferring some of the expenses related to health from the State budget to a special designated fund can, to a certain extent, make an increase in the population's health service contributions more acceptable. One may conclude that

the population would prefer to contribute to a fund with a clear designation than to the State budget. In the newly devised system, each person will pay 5% of gross monthly income to the health fund (via taxation), while the employer pays an overall 5% from the salary fund.

Health insurance cannot yet provide an adequate solution to the crisis in the public health service. The acute lack of funds needed in order to maintain medical care in the public system is accentuated by the high degree of deterioration of medical equipment, which needs serious investment. This crisis situation, characterized by the lack of a minimal amount of funds needed for a hospital and medical care units, for equipment and medication, is also shown by various indicators of community health, such as: maternal death rate (which has reduced since 1990, but is still very high, quotes: 41.1 to 100,000 live births in 1996), percentage of avoidable deaths, estimated for the period 1989-1995 as 13-15% out of the total deaths, etc.

Health insurance cannot, at least in the short and medium-term, solve the problem of insecurity within the medical service. Despite efforts in the field of health insurance, it is expected that the State will have to increase its Health budget, particularly to cover essential investment in the fundamental needs of the health service, but also to finance some programmes of national interest in the field of preventative medicine and basic medical assistance.

Some of the problems that are likely to face the Health Insurance Scheme, at least in the short-term:

- The Health Insurance Law stipulates the **centralisation of 7% of local collected funds to be handed over to the National Insurance 'House'** in order to reduce regional inequality, due to the differences between needs and income. It is doubtful if this percentage is large enough to reduce such distinctions, especially where the mechanism for operating the avoidance of such distinctions is not yet in place.

- Regarding the **Family Doctor system**, this looks as if, at least in the near future, it will be unable to address the problems for which it was created. This is due to the insufficient number of family doctors (an optimum number estimated was about 2000 people to one doctor and at the moment, the number of general practitioners cannot provide for this). Secondly, due to their location and distribution over the country, this kind of medical care is inadequate. The idea of redistributing family doctors so that they can cover the whole country is something to be solved in the future, but in the meantime it leaves a whole series of unresolved problems. The third problem is related to the training of family doctors, which is a long on-going process, so that they will be able to offer their patients a wide and comprehensive service.

Social support based on means testing

Another new component of the social protection system, this time of the non-contributory sort, based on the principle of social solidarity, is for **social support**

based on means testing. This residual system of social insurance was adopted in 1995 (Law no.67/1995). Political support for such a system was never very great and there was practically no pressure from the population to maintain or support it.

The system, as it was legally conceived, emphasises a **passive form of support – on indefinite-term** – for the poorest of the poor. Established as a social right, the high moral thinking behind it made the social insurance benefit seem a good system of protection for those in need. However the costs, from the point of view of administration and the losses the system incurred due to excessive payouts and the number of uninsured yet eligible persons, tended to outweigh the benefits. This happened for two reasons. On the one hand, they had difficulties in planning the criteria for granting benefits which were clear and unambiguous. (There was also a lack of valid legislation by which to regulate mandatory payments from local budgets). On the other hand, due to the population's often fluctuating income, (and some came from the hidden economy), they would have found it hard to cope even if their administration had been effective.

During the first four months of applying the law, social insurance benefits were paid out from the State budget, but starting from 1996 payment of benefits was passed to the control of local budgets. With some regulations missing that would enforce benefit payments and with the lack of trust and legitimacy for a system which would give mass coverage (a poor population was unwilling to support an even poorer population), the social insurance system quickly became inefficient. In 1997, some local administrations even decided to cancel these benefits and reallocate the funds designated for social insurance to other programmes of greater community interest. Many of those mayors who did not cancel benefits, channelled the money into other useful social works, despite the fact that there was no legal obligation to do so.

In consequence, efficiency and effectiveness of the system left a lot to be desired. The targeted population could not possibly be effectively protected by a benefit which was rarely there to be offered.

Family subsidies

The many **actions and security measures families** had benefited from in 1990 began a steady decline until 1997. Although in 1993 child benefit became a general right of all children, in real terms, the level suffered a permanent decrease. However, children of school age and who attended school were eligible, and this had both positive and negative results. It raised the school attendance rate, but failed to reach those families in real need who often could not afford to send their children to school.

In 1997, the value of the **child benefit allowance** increased in real terms, but it did not reach the 1989 level. At the same time, a new type of family benefit had been introduced: **supplementary benefit for families with two or more children** (Law no.119/1997). Another new arrangement was brought about by Law no.120/1997 which would increase the period of paid maternity leave, from one to two years, optional but for either parent.

Housing policy

Another problem of the social insurance system is **the lack of a coherent housing policy**. After 1989, it was not practical to make a housing policy. This fact had an effect, especially on young families.

The building of houses to be used for poor families was marginal during this period. Investments in this field encountered a slow increase starting with 1994: 1,260 such houses were erected in 1994, 1,414 in 1995, and 3,910 in 1996 (Government report: Romania 1993-1996).

The role of the State and local authorities in solving the housing problem is fundamental. During such a period the role of the State in this field should be: 1) to establish the number of houses needed and to identify the social groups in need, as well as the social-geographical areas where this problem is critical; 2) to get involved in building houses for the needy and to develop regional programmes in order to improve housing conditions; 3) to attract companies to build houses by supporting them through tax reduction, etc.; 4) to support local authorities with resources from the State budget with technical and professional support, in order to involve them in solving the local housing problems; 5) to encourage the building of houses by granting attractive credits.

Evolution of state institutional and organisational capability

Some components of social policies did not need a radical change in the institutional-organisational capabilities of State administration, at its different levels - both central and local. Such was the case with the pensions scheme, but other instances proved to be especially affected by the lack of adequate administrative structures suited for the new social reality and legislative framework.

This became evident not only with the Pensions Scheme, but also in other areas, especially where they attempted to create new social institutions in order to run active and social service programmes. Institutionalising some of the social insurance structures was not confined only to the legislative framework; it implied the establishment of some complex organisational systems, norms and social strategies to adjust to the new social realities.

In the case of active programmes to reintegrate the unemployed back to the Work Force, the reasons for an ineffective efficiency, at organisational-administrative level are multiple. *First*, is the inadequate perspective of the real future needs of those involved in labour. In consequence, there has been a weak link between qualification and effective market needs. In this way, the scarcity phenomenon has also appeared at re-qualification course level which has led to a competitive unfair battle to attend such market-orientated courses. *Second*, has been the lack of motivation and stimulation of the unemployed to participate. *Thirdly*, there was an absence of programmes for job creation, both in economical areas and in that of public interest.

Low institutional and organisational capability in public administration have also been noted in **social welfare**. If before 1989, the area of social welfare was not often needed, after 1989 the request for it became greater and greater. Introducing the social insurance system based on means testing suggests the impossibility for local unstructured administrations to cope with the surge of requests for social aid.

If before 1989, the majority of social insurance functions were fulfilled more by industrial enterprises, than by local and central public administrations, after 1990 those enterprises practically disappeared in their role as services and job centres, being replaced – almost entirely – by local public administrations.

This transfer of social insurance functions led to some structural problems that the social welfare system still faces:

- lack of a coherent social welfare system that could double the size of the bureaucratic administration for social welfare;

- lack of an effective way to define the areas of responsibility and competence needed both at decision-making level and at that of serving the actual public, in order to develop some expertise, such as professional social workers and the provision of welfare services. The present structural ambiguity of the public administration system could have negative consequences on the efficiency of any programme or social welfare system which combines two mainly distinct systems: that of granting social benefits based on administrative bureaucratic criteria and that of providing social welfare services;

- lack of some effective mechanisms for co-ordination and control of social insurance activities at local, regional and central levels has led to local administrations applying their own appropriate strategies. In this way, the degree of arbitrariness and reliance on others has increased at local administration level, not only in the way certain norms of documentation and legislation are applied, but also regarding the handling of their own funds and initiating various socially orientated programmes. This kind of structural inconsistency at organisational level leads not only to increased inefficiency of such social welfare programmes, but also to inequalities and divergence among different villages, towns, judets and between certain regions of the country, concerning effective cover for the population in all aspects of the welfare system.

Attempts to improve local activities existed even at the start of the transition period. Initiation of some structures for cooperation among the different levels of government agencies and administrations – regional/ local/ national, public administration – decentralization, the employment of social workers within local public administrations – represent important steps in the process of matching institutional and organisational State structures to the new social realities. Unfortunately, these attempts which led to an accumulation of unexpected though necessary events within the society, are not yet sufficient to constitute a firm base for the State's supportive role in the area of social protection.

The reinforcement of public institutions – by introducing effective and appropriate rules and norms for both action and behaviour in order to minimise

arbitrary action, decisions and corruption – is an essential factor for increasing the efficiency of any social programme of active support for individuals and communities.

Dynamics of social public expenditure and direct social transfer

Social public expenditure

The dynamics of social public expenditure are a good indicator, not only of the effort a country makes in the field of social insurance, but also in showing the global direction of social policies (the emphasis, the method of tackling social insurance issues, and the choice of one strategy or another).

Table 5

Social public expenditure as a percentage of the GDP

	1990	1991	1992	1993	1994	1995	1996	1997
Total social public expenditure	16.6	17	16.5	15.2	15.5	16	15.7	15.9
from which:								
A. Health	2.9	3.3	3.3	2.7	3.1	2.9	2.8	2.6
B. Education	3	3.6	3.6	3.2	3.1	3.4	3.6	3.3
C. Social insurance from which:	10.7	10.1	9.6	9.3	9.3	9.7	9.3	10
1. Direct money transfer:	10.7	9	9	8.9	8.8	9	8.6	8.4
- Pensions	6.5	6	6.4	6.5	6.5	6.9	6.9	5.6
- Unemployment benefits	0	0.3	0.7	0.8	0.9	0.8	0.6	1
- Family benefits	3.8	1.9	1.3	1	1	0.8	0.7	1.2
- Social benefits ¹	-	0.03	0.1	0.1	0.03	0.1	0.1	0.1
- Social welfare - benefit transfers ²	0.35	0.8	0.5	0.5	0.4	0.4	0.3	0.5
2. Indirect transfers:	0.02	1.1	0.6	0.4	0.5	0.7	0.7	1.6
- Social insurance – services ³	0.02	0.5	0.1	0.2	0.2	0.4	0.4	
- other social expenditures ⁴	0	0.6	0.5	0.2	0.3	0.3	0.3	

Notes: 1. The category of social insurance benefit includes both social insurance pensions, whose number strongly decreased starting from 1994 (the law being annulled in 1977) and the social insurance benefit based on means testing (adopted in 1995); 2. Special occasional social benefits, maternity benefits, temporary disability benefits, death grants, prothesis, etc.; 3. Social welfare services, decentralised public services, homes for the elderly and retired people, orphanages, spa treatments; 4. Reductions, free basic goods and services, compensations.

Source: CNS.

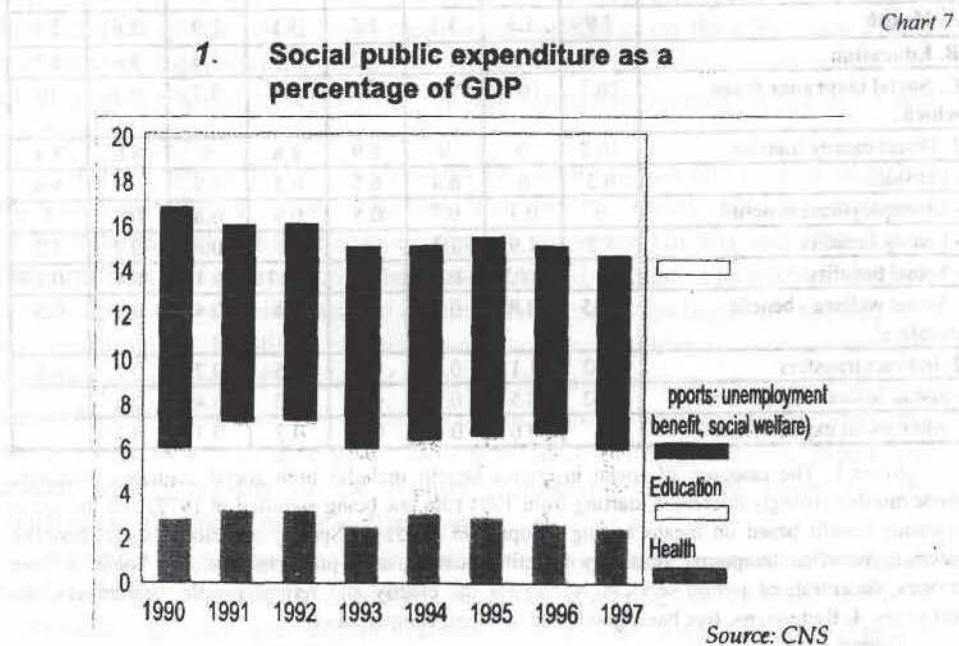
At the beginning of the transition period, Romania faced a difficult financial situation concerning budgetary expenditure for social insurance.

On the one hand, in 1989 fundamental social services such as education and health, reached a high level of reduction and their existence was very precarious. The financial support needed to maintain these services in their actual form, and at an acceptable level of performance was very high. Social welfare services were practically non-existent.

On the other hand, the Romanian social public expenditure as a percentage of the GDP, at the beginning of transition period, was much lower than those of other countries in transition. A percentage of 14.4% of the GDP places Romania below the average for countries in transition. Even so, the increase in Romanian social public expenditure was much lower.

Even after 1989, Romanian social public expenditure started to increase. It was not only the pace of this increase and the level of the effort injection into social insurance, compared to the GDP, that proved to be modest, but also the real significance of this expenditure: in relation to the rapid decrease, in real terms, of the GDP, the social public expenditure was not enough to sustain even the 1989 level.

Even in relative terms of the GDP, the greatest increase was reached in 1991 (2.8%) followed by a decrease until 1993, when there was slow increase. In 1997 the social public expenditure percentage of the GDP was below the 1991 level. Such an evolution is rather untypical for Central and Eastern Europe. The majority of the countries in transition, including the countries of CSI (former Soviet Union) after 1992 sustained a stable attempt to increase the costs of social insurance.



Another distinctive characteristic of the Romanian social policy is shown in the evolution of budgetary expenditure for public services in comparison to those designated for direct transfer to the population. If all the former communist countries now tend to increase their efforts in the field of direct transfer to the population, Romania is concentrating its efforts mainly on the growth of increase in the public expenditure for fundamental services such as health and education. This increase in social expenditure in public services has not solved the

evergrowing crisis, and acute problems that these systems face, but in most instances, it has kept them going. Such was the case for the health service where the increase in public expenditure was lower compared to that of education and training. In compensation, the expenditure designated for direct transfer began to decrease, starting from 1991 - both in real terms and as percentage of the GDP - despite the increase in the number of the unemployed, a decrease in the number of employees, and an increase in the number of those retired. The steepest decrease was registered in the area of child benefit.

Monetary social transfers

The majority of the population's income - coming from work and social money transfers, increased at the beginning of the transition period, especially in 1990, followed afterwards by a steady erosion when compared to the 1989 level. The most dramatic year of real decrease for all incomes seems to have been 1994. Though in 1995 and 1996, one can see a slow increase compared to 1994, their level did not exceed the level of 1992/1993. 1997, according to available estimated data, shows a new erosion to even below the level of 1994, especially in the area of pensions, within the social welfare system (excluding farmers), and the net average salary. The minimum net salary steadily decreased during the whole transition period, reaching 26.5% of its real 1989 value by March 1997.

Even if **the expenditure designated for pensions** increased as a percentage of the GDP in 1995/96 (decreasing in 1997 even below the 1990 level), this increase has at most compensated the increase in the number of those retired, but has not compensated for the real decrease of pensions.

Though social welfare pensions have experienced a greater **erosion** than salaries, compared to other social transfers, on average it has maintained higher levels. Except for Poland, all the countries in transition have had the same dynamics of incomes and pensions.

Table 6

Dynamics of different social incomes and transfers (1989 = 100)

	1990	1991	1992	1993	1994	1995	1996	1997
Minimum net salary	95.1	80.7	52.5	36.2	33.4	33.8	35.5	26.5
Medium net salary	104.5	84.9	74.1	61.6	61.7	69.1	75.5	59.8
Child benefits	97.8	59.1	38.4	29.0	25	28.6	28.6	42.2
Social insurance pensions (excluding farmers)	107.3	83.2	70	60.8	58.2	63.1	65.5	51.6
Social insurance pensions for farmers	180.7	74.4	40.2	48	64.2	65.2	74.2	77.4
Pensions for receivers of social insurance	114.5	94.7	88.8	71.9	68.4	73.6	76	60.4
IOVR pensions	117.1	128.9	107.8	89.2	83.4	91.3	96.1	84.7

Unemployment benefits		100	60	47.3	60.7	57.6	61.8	63.5
Aid subsidies*			100	67.3	60.1	87.6	81.1	61.4
Social benefits* ⁽¹⁾						100	81.5	52.1

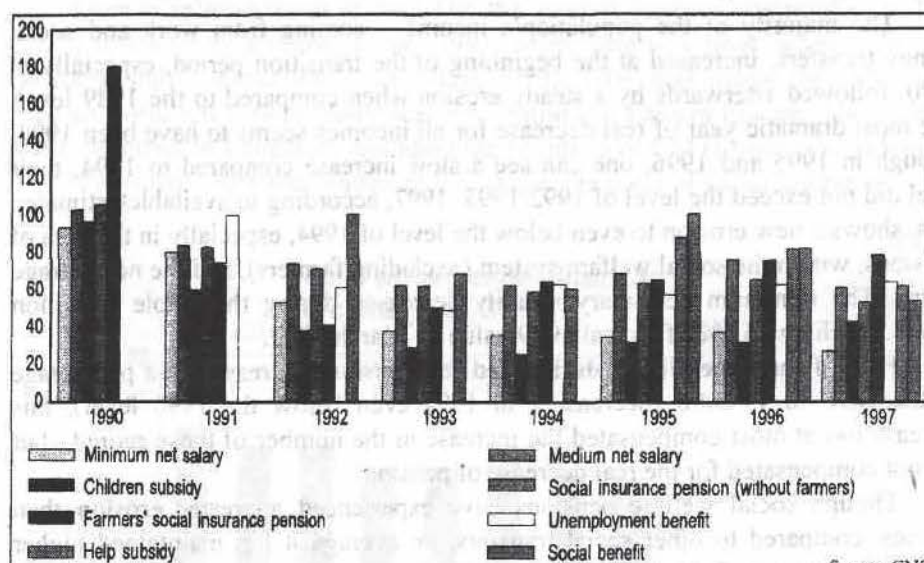
*In 1991, 1992 and 1995 costs of social benefits.

1 Social benefits for single people.

Source: CNS.

Chart 8

Dynamics of different incomes and social transfers (1989=100)



Source: CNS

Table 7

Relation between the average social welfare pension (excluding farmers) and the net average salary

1989	1990	1991	1992	1993	1994	1995	1996	1997
46.4	47.4	45	43.5	45.3	43.2	41.7	39.4	40

Source: CNS.

Table 8

The proportion between the number of families whose income is in quintile 1 and those in quintile 5

	Retired families	Actively employed families	Unemployed families
1995	0.5	1	9.3
1996	0.5	1.2	10.5

Source: AIG-CNS.

Another characteristic of pension transfers in Romania is represented by the *levelling out of their distribution*. The higher pensions experienced greater erosion, in contrast with smaller pensions whose erosion is comparatively lower. This fact is due to indexation, several times the constant value of the pensions which has produced a levelling out of pension distribution explaining how the differences lessened between them.

In all, **retired households** are more advantaged than families who are actively employed.

In 1995 and 1996, the number of retired households situated in the fifth quintile income was twice the size of those on quintile 1. In the case of the unemployed, but also of the employed the position is proportionally reversed. In 1995, the number of employed families from the two extreme quintiles was about the same, while in 1996, the income of those in quintile 1 increased, these families being 1.2 times more numerous than those in quintile 5.

Unemployment benefits

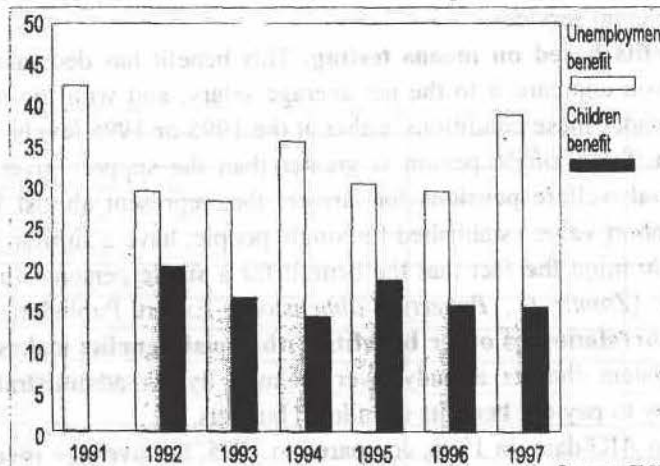
The level of unemployment benefits encountered a faster erosion than the salaries they replaced.

Until 1996, the decrease in unemployment benefits, in proportion to the average salary, was greater than the decrease in the proportion between pensions and the net average salaries.

In 1995, unemployment benefits decreased below the level of the net minimum salary of the economy, in conditions where in 1996, this reached 33% of its real value compared to 1989.

Chart 9

Average unemployment benefit with respect to social aid as a percentage of the medium net salary

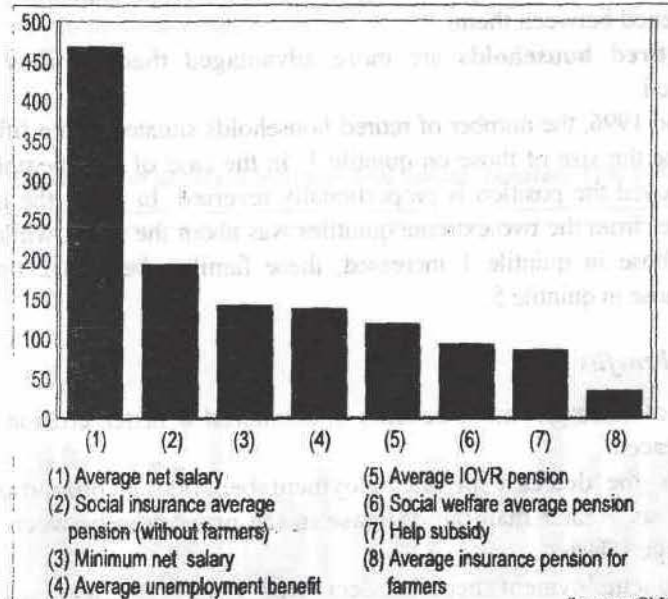


Source: CNS

Chart 10

1. Proportion of different income sources and social transfers compared to the social benefit for a single person % - 1995

Chart 2.10.



Source: CNS

Family subsidies encountered the most dramatic erosion of the all social transfers. Child benefits, until 1997, practically the only form of support for families with children, dramatically decreased in real terms. This decrease took place parallel with another phenomenon which strongly affected the welfare of families with many children: that was the cancellation of benefits and free basic goods and fundamental services.

Social benefits based on means testing. This benefit has decreased to the level of 1996 if you compare it to the net average salary, and with the minimum salary. But even under these conditions, either at the 1995 or 1996 levels, its value in absolute terms, for a single person is greater than the support given for the unemployed. Social welfare pensions for farmers that represent almost less than half the social support value established for single people, have a similar problem. One has to keep in mind the fact that the benefit for a single person is under the subsistence level. (*Zamfir C., Poverty's dimensions*, Expert Publishing House, 1995). The **non-correlation of other benefits with social benefits** makes it more difficult for a system that is already overwhelmed by its administrative and financial incapacity to pay out benefits from local budgets.

According to AIG data, in 1996, compared to 1995, the **average income per person** shows a significant increase. This increase is due mainly to the fact that

families are consuming their own produce and not because they have more money. Income from benefits has increased beyond that of employment.

The data seems to indicate a continuous crisis in living standards: while the proportion of income from work – salaries, but also from self-employment – decreases, the proportion of social transfers and incomes from home produce, increases.

In 1996 compared to 1995, a reversal of the polarisation process of incomes appears to have taken place: the proportion between quintile 5 and quintile 1 in relation to income is decreasing for the total incomes, but also for salary incomes and for those self-employed.

Table 9

Real average income per capita in 1996 compared to 1995 (%)

I. Gross total incomes (A+B)	107.0
A. Monetary incomes, from which:	102.5
- Salaries and other salary incomes	102.1
- Incomes from self-employment	90.4
- Trade incomes	110.7
- Social insurance service, from which:	105.3
- social insurance pensions	112
- child benefits	109.3
- scholarships for pupils and students	92.2
- unemployment benefits, social aid	60.4
- social benefits	103.4
- special benefits for the disabled	95.7
B. Consumption value of own produce	118.6
II. Taxes	101.3
III. Total net incomes (I - II)	107.8

Source: CNS-AIG.

Table 10

Proportion between average incomes per capita in quintile 5 and those in quintile 1

	1995	1996
I. Gross total incomes (A+B)	3.5	3.3
A. Monetary incomes, from which:	4.1	3.8
- Salaries and other salary incomes	3.7	3
- Incomes of the self-employed	5.0	4.0
- Trade incomes	7.5	8.1
- Social insurance service, from which:	3.1	3.5
- social insurance pensions	4.9	5.1
- child benefits	0.4	0.4
- scholarships for pupils and students	2.8	2.5
- unemployment benefits, social aid	0.3	0.3
- social benefits	0.4	0.8

- special benefits for the disabled	0.7	0.9
B. Consumption value of own produce	2.2	2.4
II. Taxes	4.1	3.5
III. Total net incomes (I - II)	3.4	3.3

Note: The placing of families on the quintiles was made according to the average consumption expenses (according to January prices) per adult equivalent (caloric scale CNS).

Source: CNS - AIG.

Analysing the concentration co-efficients of different social transfers (which practically reflect their degree of focus on a poorer population) the following can be deduced:

The most focused social transfers are the unemployment benefits and the social assistance benefits, followed by the State social welfare pensions. These social transfers are mainly directed towards the families on low incomes.

Though the **type of contributing social transfers** made to reduce inequality were not conceived to reduce it, State welfare pensions, due to the indexation system used, rather favoured groups on low incomes compared to groups on higher incomes. The real value of the low pensions significantly diminished slower than the higher ones. The World Bank analysis shows a high degree of progress of the contributing type transfers (involving a high degree of focusing on the segments reflecting the poor) all over Central and Eastern Europe.

- **Child benefit** is a relatively well focused transfer on the low income segments. This fact is sustained also by the analyzes of those segments reflecting the poor which reveal a higher proportion of families with three or more children. In spite of its relative high focusing potential, its real capacity to reduce inequality is very limited, due to a consistent erosion of its real value until 1997.

Social welfare transfers seem to be the worst focused, in spite of their orientation towards the poorest of the poor (an even worse focusing than in the case of child benefits). This fact was specially valid for occasional benefits, granted until the law of social benefits was passed in 1995 (as is also indicated by the World Bank analyses on poverty in Romania, 1996). This situation is due to the lack of a well-defined legislative framework, and a lack of a coherent and coordinated organisation of local services, which up to now have allowed a high degree of selfish and arbitrary decision-making.

Concentration co-efficients, as a measure of inequality, show the concentration of different sources of incomes within the total income, reflecting the 'direction' to which the differing incomes are moving towards either the poorest, or the richest. The coefficient varies from -1 to 1: a negative value shows that between the corresponding income source and total income of the family a reversal has taken place; a high value of the concentration coefficient, in absolute terms, shows a focused transfer to smaller incomes (poor people) in the case of negative values, and to the group with high incomes, in the case of positive values.

- *Concentration co-efficients of the different social transfers, in total net incomes, including the consuming of own produce, and the countervalue of some incomes from goods in kind 1995*

Unemployment benefit - 41.1%

Social assistance benefits- 42.4%
 State social welfare pensions, excluding farmers- 36.7%
 Social welfare pensions for farmers - 8.5%
 Disability benefits- 44.5%
 Child benefits- 18.7%
 Social welfare- 17.3%

Source: AIG

Note on the method of calculation: 1. Concentration co-efficients have been calculated using an equivalent scale of 1 (head of family) - 0.8 (second adult) - 0.6 (children under 18 years); either the transfers or the pre-transfer categories have been calculated using the equivalence scale: 2. The concentration co-efficients have been calculated for the total net incomes which include also the consuming of own produce and the countervalue of social transfers in kind - goods, electricity, coal, etc.

Source: ICCV

The evolution of social services

Education

Before 1989 the continuous lack of resources to maintain a high quality of education at all levels transferred a series of costs to the population, resulting mainly in emphasising inequality of chance, especially at university level, but also in secondary education. As a way of compensating the decline in the quality of State educational institutions, pressures occurred to develop a private system of education which would cater only for the children of the rich..

In addition, after 1989 a new educational polarisation took place, this time even more unexpected. Due to the ever rising costs frequently associated with the many forms of education, (school text books, the price of food, etc.), but also to the erosion of the formative power of education towards professions for certain segments of the economy (commerce, industry, etc.), the combined primary, middle school, secondary and tertiary enrolment rate decreased during the first years of the transition, especially at secondary level. University education is an exception, where a consistent increase of the gross rate has been registered.

The most affected area has been in pre-school education due to the costs which should be paid almost entirely by the family. Attendance percentage in Nursery schools decreased from 83% in 1989 to 50.2% in 1994. This percentage increased, starting from 1995 however not exceeding 63% even in 1997. The high costs of these services and their quality has not always been satisfactory. This together with a continuous decline in the living standards of families, especially those with more than two children, has led to the mass exit from these services. In addition, the setting up of some groups for private nursery education or day care, at relatively high prices, placed them above the possibilities of the average parent, so widening the gap in opportunity for the future. It has also divided children coming from the families on high incomes from those of low ones and families with one or two children from those with many.

Primary education has suffered least during this transition period. Though the attendance rate decreased to 92.4% in 1992, this has shown an increase which started in 1993, as a result of the fact they offered child benefits only if the child was in school. In 1996 the attendance rate for primary education was 99.1%, slowly decreasing in 1997 by 1.6.

Adult literacy rate, traditionally high in Romania, increased after 1989 and in 1997 reached 97% of the population). The degree of adult literacy for **females** was slightly smaller than that of the total adult population. This difference was not very significant, taking into consideration the fact that the majority of illiterate adults are quite old. However overall, the school attendance rate, at all levels, has been higher – starting with 1995 – for females.

Middle School education also showed a decrease in school attendance levels, and a little more suddenly than that of primary schools, but less severe than in Secondary schools. After 1993/94 attendance rates rose reaching, (only in 1997) the level of 1990.

The most dramatic decrease in school attendance was recorded at **secondary level**: from 90.7% in 1990 to 63.7% in 1993, with a slow increase of 5% in 1997. The lack of an adequate curriculum appropriate to the new demands of the society and the possibilities offered by the work force, along with the lack of resources, forced about a quarter of the young people between 15-18 years to abandon education all together. The number of pupils registered in Secondary and Professional schools was, in 1994, four times larger than students at university, thus the cost for the State per child at secondary or professional level schools was on average three and a half times less than for a student.

University education increased a great deal after 1989. The attendance rate increased from 10.6% to over 20% in 1993. The number of private universities also increased, so that in 1997 30.7% of students were studying at private universities. The cost of university education is consistently rising as a percentage of the total public expenditure for education. In 1996, their proportion had doubled compared to 1990. Even if the number of scholarships – awarded on merit or need – increased after 1989, both at Secondary and University level, the proportion of those granted to pupils is far smaller than those granted to students.

If **the State budget expenditure** designated for Primary education can be considered as better focused to the needs of families in the lower income bracket, then those designated for Secondary education are neutral, and those designated for higher education tend to rather favour families in the higher income bracket. There is also a difference between urban and rural environments. It would appear an advantage to live in urban areas. (*The World Bank report on poverty and social policies in Romania 1996*). This regress in educational services shows an inequality of opportunity for children coming from different social environments.

These tendencies, together with the increase in expenditure for Higher Education, and also with the school attendance dropping has led to a wider polarisation in all aspects of education. This has encouraged a major decrease in the educational capital for future generations.

Health

Health services, despite some financial investment after 1989, has continued to decline, in facilities, in allocation of finance, and in the quality of services offered. The expenditure designated for health as a percentage of the GDP, has experienced a slow increase, even slower than that for education.

All the indices reflecting the quality and the medical assistance level recorded a worsening situation: the number of hospital beds available per 1000 inhabitants continuously decreased compared to 1990, and the number of those who received medical examinations slowly decreased.

The health system's effects on the health of the population in transition period:

- **Health indices show a precarious situation in the level of health attained by the population.** Though specialists estimate that the state of health of the population is only 10% determined by medical assistance, 90% being under the impact of socio-economic factors, we can still distinguish some indicators which reflect, to a larger extent, the quality of the health service. For example the maternal mortality rate and the percentage of deaths which could have been avoided etc.

- Two studies made by INSSC – in 1990, and 1993 – show not only a **series of territorial inequalities in the state of health and medical assistance**, but also a **lack of correlation between the territorial distribution method of budgetary resourcing and the real needs of these areas**. So, the health system has not succeeded in its attempt to improve the lack of equality between the regions in what concerns the health of the population.

- A study of the World Bank's social policies on Romania (1996) shows the existence of a **lack of balance between the medical services given to rural areas and those granted to urban ones**. The majority of the rural population would go mainly to the local surgery, while the urban population would attend clinics and hospitals. As the financial resources are allocated mainly to the latter, it is obvious that rural areas are disadvantaged.

- It is noticeable that there has been an **increase in the polarisation within medical care services and allocated funds related to them per capita, according to the various incomes of the population**. The majority of the poor benefit from primary medical care in surgeries. Richer families tend to 'skip' this stage and go directly to clinics and hospitals (the World Bank Report on poverty and social policies in Romania, 1996: 60). The increase of private health services, not yet covered by any health insurance scheme, tends to emphasise this polarisation.

Social welfare

Even Romania is counted among those countries with a strong tradition in the medical care services (due to the School of Sociology led by Gusti during the inter-war period until 1969). In 1989, medical assistance was practically annulled; the

profession of social worker unknown, for the training of social workers was cancelled in 1969, and financial aid was occasional and very rare.

Starting with 1990 the training process of social workers was resumed, initially at college level, then in 1991 at university level, so that by 1994 the first series of social workers graduated. Meanwhile, training for social work continued: besides Bucharest, Cluj, and Iași, other specialised university centres appeared, such as: in Timișoara, Oradea, Alba Iulia, Pitești, Târgoviște. Starting from 1994, about 300 social workers graduated annually and this number has very much increased in the last few years due to the new departments extending into the areas of theology and social assistance (*E. Zamfir, 1998*).

If this specialist training process had a spectacular development, **the development of other professional services lagged very much behind**. What is missing is a further law in the field of welfare, as well as a governmental strategy for developing a new system for social services at the national level. As a result of this shortcoming, **the development of such services has been rather chaotic** and this explains the present situation.

The development of these services is due mainly to the joint efforts of **non-governmental organisations**. Such organisations have reacted promptly, being especially concentrated on problem areas even since the beginning of the '90s: abandoned children, children in orphanages, homeless children, AIDS children, old people without any support, the physically challenged, etc.

In the absence of a coherent system of social services, **certain structures cooperated with local administrations. The Ministry of Labour and Social Insurance together with non-governmental organisations then came into being:**

- **The 41 development projects within the SESAM-PHARE programme** are worth mentioning. Many of these pilot schemes seemed not able to sustain themselves financially and were in danger of vanishing once the external financial sources disappeared. However, they involved a diversity of social services and so a wide experience was gained in this field, together with a change in the community's mentality regarding the role of a civil society.

- A significant development can be seen in the creation of **Protection Centres for children at risk , and large families**, which were initiated in seven judets, supported by the non-governmental organisation Save The Children, in cooperation with the Department for Child Protection, and the Judet Councils. These services, were initially developed outside the public institutions, but in partnership with them. After a time they were taken over by the Judet Councils, thus forming the core of some future system of social welfare at judet level.

- **The social welfare public community services are however, extremely undeveloped**, yet some however have tended to strengthen and develop :

- **Law no.208/1997 regarding the generalised extension of soup kitchens**, in order to provide social protection to some ever expanding segments of the community ; it is estimated that there has been an increase of those receiving such aid from 40,000 people a day to 100,000 people a day, running up a total cost of 200 billion lei in 1997.

- **Employing social workers in the departments of the Ministry of Labour and Social Insurance;** in spite of this fact, their status is not yet differentiated from that of a civil servant, their attributes being mainly to administer some monetary services.

- **Employing and involving social workers in the judet commissions for child adoption and protection.**

- **Giving the possibility, at local authority level, to develop some specialised social services in the community,** in response to that community's needs. This possibility represents only an option to decentralise, and it is a far cry from having a coherent infrastructure with which to carry it out.

For the moment, there is just lip service with passive support. It is not only a national social welfare system and a coherent strategy to develop social services at community level that is missing, but also an approach to taking preventative measure. Until now social welfare has concentrated on solving some problems estimated as crucial by external factors, and not necessarily by the communities themselves.

EMPHASIS ON SOCIAL POLICIES DURING 1990-1997

The legislative dynamics during the transition period reflects **the lack of a coherent and effective strategy in the field of social protection**. The lack of reform in the social welfare system, and its services, a lack of a functional social support system, a lack of an effective housing policy and the steady erosion of the only benefit granted to the families with children, child benefit, have led to a fast and substantial decline of living standards, especially in families with more than two children.

The Romanian social policy, during the first transition period, had to some extent a **restorative quality** after measures used by the socialist regime which were considered unjust. Some restorative measures, for instance, the increase of social benefits, of some social categories (the physically challenged, the institutionalised, orphans, etc.) proved to be not only necessary, but highly acceptable, and were supported by the community. Other measures however generated frustrations due to the unequal spread both of the advantages and the related costs. Besides using up rare resources which really belonged to the whole community in the restorative process of social justice, some costs were unjustifiably transferred via taxation to large sections of the population.

The effective reforms and legislative restructuring of the different domains of social insurance had a somewhat **reactive nature** (except for some regulations such as the legislation of social assistance for the unemployed), for they responded to some acute problems, but with a very reduced capacity to generate positive effects, or prevent some negative effects in the medium or long-term.

Delays in the reform within social services have accounted for increases in future costs, due to the rapid decline of those services already in existence.

Positive aspects of the social policies during the transition period

1. **The legislation and the legislative initiative experienced a boom in the last two years**, specially in the field of:

- **Pensions:** in 1996 the pensions draft law was issued with a view to correcting some concerns and problems raised by the old legislation, such as: 1) *a better correlation between social insurance benefits and contributions during the period of active life*; 2) *stopping the fast erosion of pensions and the levelling out of their distribution by replacing the actual indexation system with a more flexible one*, of points accumulation whose value is permanently adjusted, on going, according to inflation;

- **Active measures to reintegrate the work force:** for this purpose, the initiation of some structures of Judet Committee type, were envisaged including a National Committee for Active Measures Coordination, a National Agency of Employment and Professional Training, with the purpose of coordinating active measures at a national and regional level, and correlating them to the real needs of the work force at local and national level;

- **Health insurance scheme:** by introducing a more flexible financing system for medical services; to correlate the financing resources of the medical system at regional, local level;

- **Social welfare:** by more adequate legislative regulations on the issue of adoption, abandoning, preventing and compliance to child rights, by stimulating the development, at judet level, of support services for children at risk, by redefining the insurance system to protect such children, by promoting non-institutionalisation, by planning the NGO sponsoring law which will open the possibility to bring to fruition supplementary resources for social protection.

2. **Social protection for the elderly through the existing pensions system:** in spite its problems and troubles, this system has succeeded to maintain the elderly, more than other social groups, above the poverty line.

3. **System of financial support for the unemployed,** Where the compensation for mass lay-offs was added to the benefit, the system could be considered relatively reasonable, although the proportion of unemployed people below the poverty line is much larger than any other social group. However, it was proved that just maintaining unemployment benefit at a low level without other measures is insufficient. What is needed to stimulate the integration of those unemployed back into the legal work force is some active, comprehensive and aggressive measure, for otherwise they will be encouraged to join the grey economy.

4. Foundations have been laid for a **better system of dialogue and social partnership** which is more advanced in connection with the **trade unions**. A **Social-Economic Counsel**, with an advisory role for a more efficient social dialogue has also been established, as well as the promotion of a partnership between public authorities and the civil society.

5. A series of **social orientated programmes:** the project of the National Agency for Employment and Professional Training, the Agency for Development

in Valea Jiului, the Fund for Social Development, following the recognition of the need to launch some **regional programmes to catalyse and activate local and regional socio – economic resources and potentials**. This was in order to overcome some problems as well as the general crisis generated by the economic reform and restructuring processes; in 1997 the Presidential Commission to Fight against the Poverty was established;

6. A vast movement for **administrative decentralisation** which establishes a stimulating framework to activate communities to solve their own problems was initiated.

Structural problems of the present social policy

1. **The limited capacities of the State.** The vastness of the social problems, often extremely serious, produced during the first years of the transition, greatly exceeded the resources available for the Social Insurance Scheme. However, there is the perception that, besides not having enough resources, the State does not respond fast enough, nor is it innovative or efficient. These limited capacities of the State in the social policy must be held responsible for the socially disruptive effects of the transition.

2. **The reactive nature of social insurance policies and programmes.** The social policy evolved without a sure and coherent strategy or any priorities related to the costs and social issues of the transition. A policy of the 'response to pressure' type, also characterised by reduced efficiency, is by nature a direct source of the escalation of some of the acute social problems and the stress of social polarisation.

3. **The acceptance of some elements of the system planned by foreign experts without any analyses of their social insurance implications and without considering their actual use,** thus increasing the risk of a non-homogeneous system without considering their actual use. That is what happened in the area of social support.

4. **The slow pace of the reforms in some areas:** health, social welfare services, child protection schemes, housing:

5. **The failure of some social support measures of the passive type to fight against poverty,** not linked to any social participation and abandoned to bureaucratic administrations instead of replacing some self- focusing forms of support. i.e. **social support** Not only the low level of institutional and organisational capacity of the State at a local level have led to the failure of this programme, but also the fact that it was not sustained by the population who were themselves at the margin of poverty.

6. **The mostly passive nature of the social policies,** especially in the *unemployment and social welfare fields*. A lack of *active programmes and policies* in job creation and in the stimulation of entrepreneurial initiatives, through active advisory and credit programmes, through mechanisms to facilitate tax payments and social insurance, have been very noticeable. In the social welfare field the

neglect of professional development in the social welfare services system, is obvious, and is compensated for by financial and social support of the administrative type.

7. Hectic development. A legislative framework is missing which would have regulated either the *methods of financing*, different public services and local programmes, or the *responsibilities and contributions* related to them. There is a risk that the State's withdrawal from the responsibility of providing for some groups in need, will become wider and wider. *Especially missing are the financing procedures and the technical support of local authorities, which would link local incomes to the transfers at national level in order to reduce possible regional imbalance.*

8. Under-development of the institutional and organisational capacities of the State. This especially refers to poor incapacity of public administrations to diagnose social issues, and plan and monitor social programmes;

9. Social insurance legislation still has wide gaps. Despite several pertinent advances, it has been noted that there are also a number of uncorrelated and legally uncovered areas, for instance, in child benefits, or in the legislation regarding the social welfare system, and domestic violence.

10. A very poor allowance for Family benefit The support policy for children and families with children, although having a boost at the start of 1997, *has now tended to become a secondary issue.* The systematic erosion of these benefits widens social polarisation and points out some serious, and quite obvious problems with long-term effects, such as abandoned children, homeless children, etc., for it is clear that such children represent the most disadvantaged category of the transition.

Potential guidelines and possibilities for developing social policies

- 1. Plan a social policy strategy based on a large social consensus** through partnership mechanisms.
- 2. Clarify the legal framework** by filling in the gaps and ensuring a satisfactory bridge between already existing legal measures.
- 3. Develop the State's capabilities** – either at local level or at central level – in order to:
 - **mobilise social insurance resources** by co-operating with the private sector, NGOs and local communities;
 - **decentralise coherently** while still co-operating with, co-ordinating and monitoring structures of the various social programmes, along with some of the mechanisms for technical support;
- 4. Provide primary development measures and active programmes** for job creation so as to integrate the unemployed back into the work force and thus fight off poverty.
- 5. Change existing requirements social insurance benefits on an unconditional basis and for an unlimited term** linking them and their association to the work concerned and to social participation.
- 6. Develop some complex programmes to support the child and families with children:** financing them sufficiently, but in addition develop legislation for child benefit, geared to individual needs and with easy access.
- 7. Initiate and develop some permanent forms of cooperation** in order to involve the economic sector, NGOs and communities in the growth of social insurance resources.
- 8. Initiate community development programmes** in order to develop community capabilities in order to mobilise available resources and organise socio-economic development

programmes with a large participation by all those involved: local authorities, trade unions, employers' associations, schools, Churches, NGOs, etc.

9. Plan for support strategies in the poorer areas and for those at high risk in order to reduce the local imbalance in socio-economic development. The Agency for Development in the Petrosani Mining Area has already made a started such planning.

10. Planning a multilevel and multisectorial strategy to prevent and reduce poverty.

The role of the State should not be considered as one functioning in either a universalist state or a residualist one, for at the moment no such choice exists. The issue of the State's role should be raised in the firm context of the economical, social and political peculiarities of a transition period and then related to it. Due to restricted financial resources and relatively strong economical constraints, the State should first concentrate on increasing its institutional capability and involve companies and NGOs in the mobilisation of resources for the Social Insurance Scheme so that its financial outlay in this field is less. At the same time it should 'activate' some social insurance measures, so that the potential for self-support among individuals and communities in need will increase.

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