Shaping public policy in the context of welfare state transformation

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Abstract. In recent years, the issue of welfare has been the subject of much discussion and debate, and the welfare state is again in the spotlight. Nowadays, two kind of challenges (1) economic and financial crisis which started to unfold in 2008, and (2) the structural changes in labour markets in the context of Europe 2020 strategy and trends of demography create new pressures on welfare states. Thus, in the context of transformation of welfare states under the economic and political international movements, the national states have responded very differently to the new challenges, and the governments had to rethink the policy-making process in order to get the ultimately purpose of a public policy, means ensuring the citizens’ wellbeing. This paper analyses the Romanian government reforms, carried out under the Europeanization process and after the financial crisis, in various policy areas. The attention goes up on this case and aims: (a) to identify the challenges and perspectives of welfare state; (b) to study the policy-making process and the reform of contemporary employment policy made by Romania in the context of reconsidering public budget.

From a methodological standpoint, the research relies on comprehensive and systematic search of the vast literature on welfare state, and document analysis (among other Annual Reports, authorities’ data, resume, obtained by using free accession to information) and strategic documents.

Keywords: public policy-making, welfare state, employment and unemployment, international developments

JEL Codes: I38, E24, H53, J18.

1. Introduction

Currently, the main topic of discussion with regard to world economy is the nature of welfare state and how quickly the crisis will be overcome and what kind of public policy will take in order to recover. The perspective on welfare system and its sources of performance is very different today than the understanding from previous years. Processes, such as globalisation, Europeanization, demographic change and public choice perspective on public policy-making have surely eroded the welfare state foundations of the European Union Member States. There has been too little consideration of how welfare states are being restructured in order to cope with new risks and needs, and how the underlying purpose and role of the modern welfare state is being reappraised.

Thus, the transformation of the state is both theoretically and empirically defined (Strange, 1999; Rosenau, 1995). The majority of authors who refer to the transformation of the state, the retreat of the state, or the de-nationalization of the state would argue that this has a decisive impact on the welfare systems (Schubert, 2009). In this context, policy-makers are struggling to find ways to cooperate and manage the

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current economic challenges while preparing their economies to perform well in an increasingly difficult and unpredictable global landscape. In the last years, Romania has made considerable progress developing institutions compatible with a market economy, and straightened the public policy capacity.

2. Theoretical background and methodological issues

The role and size of welfare state has been under question in the context of geopolitical movements, and economic and financial crisis, with widespread consequences on economic performance, labour productivity and employment in all countries around the world. Intensifying the pressure on budget, increasing the likelihood of cuts in social services throughout Europe, changed the views on existing welfare states programs as well as demands for new programs. In this context a first sub-question would be: *What is a welfare state in the twenty first century, in the areas of globalisation and Europeanization, where the welfare state seems to be slowly crossing national boundaries?*

Having the assumption that two channels through which the economic and financial crisis affects the funding of social security system have been considered (Busch, 2010, p. 8), namely: (1) the higher unemployment, the expenditure of social insurance funds, and (2) falling of tax and contribution revenues, the following sub-question has been raised: *To what extent the economic and financial crisis fosters the change of welfare state?* So, taking into account all these landmarks, the author addresses the following main research question: *How features of the emerging social policies fit into the current welfare state models?* Literature identifies (Armingeon and Beyeler, 2004) besides the objective, material constraints which are put on welfare state through international economic and political integration, a third “soft” policy models and ideas promoted by international actors. In this sense, Palier and Sykes, 2001, p. 10; Palier, 2003, p. 148) argue that “globalisation can be thought as a provider of specific solutions for the problems met by welfare states”. Providing alternative perspective, the new ideas may trigger policy changes. The Europeanization, also interpreted as a globalization process in the European realm (Matei, 2004; Matei and Matei, 2008) represents a state which is contiguous to European integration, encompassing among others its impact upon the national administrations, and welfare state’ understanding.

Given the goal and the nature of the work, rather of a paper that analyzes the country experience, the research methodology has been selected to give a view on national transformations of welfare state under the pressures of international actors, and not to go in-depth description of some theories or models of welfare state. In this sense, in this study, the author is interested in the relationship between perspectives on welfare states’ transformation and public policy process. The focal point is the possible effects of the measures took to implement the changes of welfare state on policy-making, and examines divergent trajectories of social development on Romania in the wake of the global crisis. The paper is based on quantitative and qualitative data, using a mixture of sources:

- the qualitative data are extracted by author from strategic and legislative documents in force in the field of social security;
- the quantitative data come from statistics available in official databases of European and public authorities.
3. Data analysis

3.1. Status quo: Socio and economic context in Romania

In brief, there is no commonly agreed definition of the welfare state. Esping-Andersen (1990), perhaps the most prominent scholar in the field of welfare state research, defines the welfare state as the state’s responsibility for securing some basic modicum of welfare for its citizens. As Hort (2004) has pointed out, in his comprehensive historical overview of the modelling and theorising of the welfare state from its emergence to the current state of the art in comparative welfare state research at the beginning of the new millennium, the welfare state is a paired, or two-sided concept – welfare and state – but its foundation has always been the state, the nation-state. The majority of scholars who refer to the transformation of the state, especially the welfare state said that two processes (1) the retreat of the state and (2) the de-nationalization of the state had a decisive impact on the welfare systems.

In Romania, the transformation of the welfare state had a sinuous dynamic made up with period of fall and increase, being greatly determined by the evolution of country’s economy. From this point, the period 2000-2008 is one of continual and durable increase, but which is followed by the deep and structural crisis (ICCV). Also, the European Union enlargement is a crucial process for the understanding of the category welfare state. After its accession to EU, Romania started to change the policy-making process in order to increase the capacity for public policy and to adapt its welfare state to the European social model of welfare.

In this general context, in 2008 a new international process appears the global economic and financial crisis. This international phenomenon put pressure both on the economy of each states and the European social model, including Romanian welfare state, and link to the transformation of the welfare state principles and mechanisms. Therefore, in order to give an overview on Romanian welfare state’s transformation, the author chose to same of social policy indicators [in comparative view: Romania and the other member states], taking into consideration that the existence of welfare state is based on public revenues from taxes, fees and other forms. Brumby, J. and M. Verhoeven (2010) consider that the global crisis has challenged countries to sustain spending that promotes future economic growth and poverty reduction. So, it could be said that the transformation of the welfare state represents the way in which governments choose to do or not affects the outcome of social policy.

For Romania, as well as for almost all countries, the crisis has been a complex of interconnected crises: fiscal-budgetary, economic, political, moral, and of knowledge. It started as a financial one, then moving into an economic one, gradually. Policy makers are struggling to find ways to cooperate and manage the current economic challenges while preparing their economies to perform well in an increasingly difficult and unpredictable global landscape. In the last years, the expenditure has increased, especially for social protection that has the most important share in the total expenditure, and also, for this type there is the highest impact of economic and financial crisis. Labour market statistics cover a wide range of subjects, including employment and unemployment, quality of work, labour costs and earnings, job vacancies, and labour market policies (European Union - Eurostat, 2011). In this paper, the focus is on employment and unemployment as outcome of social policy developed by the welfare state. So, the [un]employment rate is considered as a key social indicator for analytical purposes when studying developments within labour markets.

Concerning the Romanian employment policy, it has a strong legacy of passivity, so in practice it has been a policy dealing with unemployment rather than employment and aiming just at easing the social
impact of industrial transformations. Now, with the economic conditions changed, the policy has shifted from benefit provision to support for finding new jobs.

![Fig. 1: Unemployment rate for EU Member States](http://epp.eurostat.ec.europa.eu)

Long-term unemployment is one of the main concerns of policy makers. Apart from its financial and social effects on personal life, long-term unemployment negatively affects social cohesion and, ultimately, may hinder economic growth. The unemployment rate is an important indicator with both social and economic dimensions. Looking to the unemployment rate reached by Member States, we remark that Romania had a relatively constant trend. The lowest rate reached 6.1% in 2008, followed by a small increase during the next two years, and ended in 2012 with a decrease of unemployment rate to 7.3%. The impact of economic crisis in Romania is reflected in the variation of unemployment rate, such as: rise (+0.4 ppt) in 2010, and (+0.1 ppt) in 2011, and fell (-0.4ppt) in 2012. It is worth mentioning, the situation of several member states [Bulgaria, Estonia, Ireland, Greece, Latvia, Lithuania, Hungary] that recorded for the first years a lowest rate, but since the economic crisis started they reached a bigger rate than Romania, between 10.3% - 17.5%. Furthermore, Spain has a special situation getting 25.2% in 2012. Generally, between 2011 and 2012, the unemployment rate rose in 17 Member States, dropped in 9 Member States, and remained stable in two, Hungary and Denmark.

Therefore, rising unemployment results in a loss of income for individuals increased pressure with respect to government spending on social benefits and a reduction in tax revenue. From an economic perspective, unemployment may be viewed as unused labour capacity (European Commission, 2013). On the other hand, the employment rate, in Romania, decreased during the next year after the crisis started to stand at 58.6%. During successive years the employment rate slightly increased in 2010 to reach 58.8%, again decreased to 58.5% in 2011 [the lowest rate for the period after the crisis hit], and recorded the highest employment rate 59.5% [for 2003-2012 period] in 2012. In this context, the country’s Europe 2020 target of 70 % by 2020 remains a challenge (Council of the EU, 10649/2/13). Comparative with other Member States [Bulgaria, Denmark, Greece, Spain, and United Kingdom, where employment rate reached between 2003-2012 sinuous trends] Romania kept the rate around 58.7%.
It is important to notice that in contrast with the period of strong labour market performance up to mid-2008, the labour market has the subject of a sharp setback over 2009 resulting in a drop of the employment rates, while unemployment rose strongly. If we are looking to national data reports (INSSE, 2011, 2012) it can be noted that distribution of employment by activities of the national economy pointed out: 29.0% persons worked in agricultural sector, 28.6% in industry and constructions and 42.4% in services.

3.2. Public policy-making and Romanian welfare state

Looking back to the transformation of welfare state a first milestone is the crash of socialist in certain countries the communist regime, because the institutional arrangements developed during that times differed widely from the Western European understanding of welfare states (Aidukaite 2004). After that moment, states started to rethink their functions and the nature of the Bismarck welfare state under the pressures of international actors and processes. Therefore, after the collapse of the socialist regime many countries began their transition from the communist type of welfare state towards new ‘Western-type’ welfare regimes. Generally, the socialist welfare states were “stronger” in the sense of authority and bureaucracy (Tamás 2001, p. 5) and they were not exclusively organized via the central authority. In Romania, the welfare system was consolidated during communism, although its basis was set before. Two essential features characterize the welfare state for that period, namely maximal centralization and the link to employment (Dobre in Schubert et al, 2009). To these, Deacon (2000) added the following:
the welfare system was an inseparable part of a total, political and economic system which was controlled by the monopolized power, and had minimal market mechanisms and political democracy;

- the existed welfare state guaranteed employment and an egalitarian wage system with hidden privileges of the power elite;

- party state monopolized decision making on the allocation of the national product and freely shifted resources between the accumulation and consumption, and between individual consumption and socialized provisions such as pension and health care.

- pensions and other benefits were related to the wage system in which some categories of workers (especially employees in the heavy industry sector) had privileges;

- state enterprises provided several cash and in-kind benefits and services to their employees, employees’ families and retirees, such as several sorts of allowances, partly free recreational facilities, vacations and day-care facilities.

Regarding the public policies, one thing is sure, before and after 1990, the government had to choose between taking or not taking an action to solve a domestic issue (Matei and Dogaru, 2012). The main difference consists in the different perspective on the decision-making process. In the post-revolutionary period, the policy-making took the form of a unilateral, rigid and hyper-centralized process (top-down). During the transition period, the vertical of the power was separated, and under the pressure of some various interest groups and civil society, the mechanisms of carrying out public policies have become more horizontal (Vlașceanu in Zamfir, 1995). Analysing the content of social policies, Naumescu (2000) finds three main periods during transition:

- a period characterized by an explosion of more or less appropriate social measures, such as: (1) increase in salaries and benefits, (2) generous special benefits for particular groups etc. The author concludes that the main effect of this period was the exhaustion of the public budget in period when economic reforms and budgetary tightness would have been probably more appropriate.

- a period that lasted until 1997 was called the period of ‘indexation’ when social policy consisted mainly of small increases in passive benefits only to hamper the effects of hesitant economic reforms.

- only after 1997, governments committed themselves to substantial economic and social transformations. The economic changes taking place during the 1990s created high rates of frictional unemployment with workers moving from old jobs in declining sectors to new jobs in expanding sectors.

The process for accession to European Union, started in 2000, changed the view both on welfare state, and public policy process, because traditionally the notion of a welfare state link to a high degree of sovereignty, and the process of enlargement enforced this concept and the issue of restraint sovereignty. Particularly in this period of accession, Romania tried to comply with the practices and the patterns of the EU and the reforming process of the public policies cycle aimed the transition from the normative-legal perspective to the analytical-managerial perspective. Transformation of welfare state determined changes on public policy process. For example, concerning the structural dimension, a series of institutions have been established in order to get the functions of welfare state in a modern time. The main authorities involved in the policy-making process are (Matei and Dogaru, 2011):

- the General Secretariat of Government - The Department of Public Policy;
- the Line Ministries - The Public Policy Units at the level of the Ministries;
the Inter- Ministerial Permanent Councils;
non-governmental organizations, other research institutes and centre.

The EU enlargement was not the only process that affected the welfare state understanding, but the process of deepening has been a more fundamental way for welfare states’ transformation. Dealing with interdependences, it can be assumed that the understanding and the conditions of welfare policies have become increasingly complex because of the deepening process. The influence of international actors on domestic policy-making is widely recognised (Matei, 2007). The European Commission, International Monetary Fund (IMF) and World Bank (WB) have been of key importance in shaping the timing and content of social policy reforms. Thus, the problems with the welfare state become even difficult if we take into consideration the elements of EU supra-nationality and the globalization trend, and the global economic and financial crisis demonstrated that the World Bank promoted the restructuring of the old welfare structures and provided governments with technical and financial assistance. If the influence of global actors (International Monetary Fund, World Bank) is more visible, the influence of Europeanization is not so visible and straightforward on social policy, because the European Union has shared competence with the Member States. Despite this in July 2010 the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014), and a decision on guidelines for the employment policies of the Member States, which together form the “integrated guidelines” (Council Decision 2013/208/EU). So, according to Rys (2001b, p.185) “the EU does not impose on member countries any specific hard law rules on social policy”. However, in response to the high level of unemployment in Europe, the European Commission launched in April 2012 a set of measures to boost jobs, the so-called “Employment package”, aimed to provide a framework for coordination. For a better coordination in the area of social protection among the EU member states has been established the open method of coordination (Dogaru, 2013; Radaelli, 2003, pp. 31-32), aiming to help member states develop their own social policies through the process of learning about the best practices. According to Wehner et al. (2004), the main advantage of this method consists on taking into consideration the specific of local conditions, of a country where the new social policy measures are to be implemented. Labour market policy interventions are classified by type of action into three broad types – services, measures and supports – and into 9 detailed categories, namely (European Union Services, 2010; European Union Services, 2011, pp. 99-100):

- labour market policy services - cover all services and activities of the national Public Employment Services (PES) together with any other publicly funded services for jobseekers.
- labour market policy measures - cover interventions that aim to provide people with new skills or experience of work in order to improve their employability or that encourage employers to create new jobs and take on unemployed people and other target groups.
  - training
  - job rotation and job sharing
  - employment incentives
  - supported employment and rehabilitation
  - direct job creation
  - start-up incentives
- labour market policy support - cover financial assistance that aims to compensate individuals for loss of wage or salary and to support them during job-search.
  - out-of-work income maintenance and support
  - early retirement
In order to address the challenges outlined above in the national economic and employment policies areas, the Romanian government adapted the policy-making, integrating the following measures: (1) labour market services, (2) training, (3) job rotation and job sharing, (4) employment incentives, (5) supported employment and rehabilitation, (6) direct job creation, (7) start-up incentives and (8) out-of-work income maintenance and support. In fact there is considerable heterogeneity between countries in terms of both spending on labour market policies and the level of unemployment. For getting all this measures governments have to use their public revenue. In case of Romania, the government decide to assign money especially for employment incentives and out-of-work income maintenance and support measures. The table below represents a glance on Romanian public expenditure (millions of EUR) on the labour market policy.

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<tr>
<td>Labour market services</td>
<td>20.659</td>
<td>23.660</td>
<td>30.657</td>
<td>40.819</td>
<td>46.225</td>
<td>47.786</td>
<td>37.043</td>
<td>34.769</td>
<td>35.231</td>
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<tr>
<td>Job rotation and job sharing</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
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<td>Employment incentives</td>
<td>29.103</td>
<td>36.340</td>
<td>44.079</td>
<td>52.098</td>
<td>52.288</td>
<td>49.927</td>
<td>35.690</td>
<td>23.109</td>
<td>15.419</td>
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<tr>
<td>Supported employment and rehabilitation</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
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<td>0.000</td>
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<tr>
<td>Direct job creation</td>
<td>23.110</td>
<td>20.434</td>
<td>31.007</td>
<td>33.179</td>
<td>29.168</td>
<td>20.077</td>
<td>7.990</td>
<td>7.368</td>
<td>5.984</td>
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<tr>
<td>Start-up incentives</td>
<td>0.242</td>
<td>0.380</td>
<td>0.394</td>
<td>0.807</td>
<td>0.827</td>
<td>1.047</td>
<td>0.039</td>
<td>0.033</td>
<td>0.025</td>
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<tr>
<td>Out-of-work income maintenance and support</td>
<td>275.328</td>
<td>296.859</td>
<td>313.952</td>
<td>270.819</td>
<td>283.708</td>
<td>242.515</td>
<td>449.610</td>
<td>679.610</td>
<td>324.265</td>
</tr>
<tr>
<td>Early retirement</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
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Table 1: Romanian public expenditure on LMP
Source: the author based on AMECO data

To see whether the amount spent by Romania is high or not, it is important to see the options of the others Member States. A first illustration of this is the extent to which expenditure on LMP as a proportion of GDP varies between countries. As we can see on the graph below, the highest relative level of expenditure in 2011, was occurred by Denmark, Ireland and Spain, and in 2010 only two, Ireland and Spain kept the rate (both 3.9 % of GDP). In contrast, Romania spent less than 1 % of GDP on the labour market policy for all the period of analysis.

![Fig. 3: Public expenditure on labour market policies, by type of action as % of GDP](http://epp.eurostat.ec.europa.eu)
Unfortunately, if we compare the level of spending on the labour market policy and the level of unemployment, we will not obtain relevant results, because the link between them does not tell us very much. It could be noted that a high level of expenditure on labour market policy do not relate with a lower unemployment rate. For example, in Spain which spends almost 3.9% of GDP, the unemployment rate got to more than 20.2% in the last three years, while in Ireland which has the same percentage of public expenditure on labour market policy the unemployment rate has been around 14.5% in the last three years, or Bulgaria that allows around 3.75% for labour policy, and that has an unemployment rate of 11.4 for the same years. There have also been cases when the states recorded the same unemployment rate, although they invest only few in activities for labour policy. Moreover, the European Commission asserted that the reasons for the lack of link between these two variables are complex and relate to historical institutional and economic factors as well as current government policy. In this context, the policy process has been guided by the package of macro-stabilization and structural measures, supported by a multilateral program with the World Bank, International Monetary Fund and the European Commission.

Overall, the problems with the welfare state become even difficult if we take into consideration the elements of EU supra-nationality.

3.3. Final remarks and implications

Reaching the 2020 target of 75% for those aged 20-64 requires stronger commitments by Member States to considerable reforms under current economic circumstances, and unfortunately according to data provided by the European Commission the target do not appear feasible in Romania. The European Council based on the Commission 2012 AGS, set out the policy guidance for Member States to submit their national reform programmes containing their plans for labour market reforms to achieve the EU headline targets set in the employment guidelines. Based on proposals of the Commission, the Council adopted country-specific recommendations underlining areas in which the Member States should undertake policy reforms within the overall framework of the guidelines for Employment Policies. Moreover, the European Council has established guidelines concerning health and safety protection at the workplace as well as guidelines for industrial law (Schäfer et Schubert 2009). The Romanian government started to implement its strict austerity plan in 2009, using the international loan. A first measure was certain cuts in public sector wages and jobs, but despite them, the agreed deficit target could not be reached, and the government passed another austerity package. This provides for deep cuts in the Romanian welfare state, with sweeping cuts of 15% in all social transfers and of 25% in public sector wages in order to bring about a structurally balanced budget by 2014. Although, these measures helped Romania to carry out policies which lead the country toward growth in 2011, a series of factors push the growth around zero in 2012.

The analysis reflects that the level of social spending in Romania is low compared with the European average, and due to the EU enlargement and deepening process the term “welfare state” has become increasingly vague, so the public policy-making is under questions, since the economic and social policies can not be isolated from the global economic background. It could be assumed that the welfare policy reacts to economic risks. At a glance based on existing developed studies (Schubert et al, 2009; Seeleib-Kaiser, 2008) and on the current analysis it could be drawn as a result (table 2) the following developments and implications on welfare states’ transformation.

4. Selective references


