

# SOCIAL PROTECTION EXPENDITURE WITHIN THE BUDGETARY SYSTEM IN ROMANIA

Lect. Oana Dobre-Baron Ph. D  
University of Petroșani  
Faculty of Science  
Petroșani, Romania

**Abstract:** Currently, most countries are concerned with the implementation of public policies which increase or maintain the social welfare of their citizens. The most important component of this policy is the social one, and within it stands out particularly the social protection system. In Romania, this system consists of two main components: the state social insurance system and the social assistance system. The extent to which the two systems reach their ultimate goal, namely to ensure a decent life for citizens, depending on their area of coverage by social security benefits. These are expenditures that are included in the public budget. The level of these expenditures, their share in the total expenditure of the budget system, but also their share in GDP are indicators that show the coverage level of social protection system and ultimately its ability to raise the level of living standards. This paper aims at a brief analysis of both the level as well as the evolution of these indicators between 2006 and 2011.

**JEL classification:** H53, H55, I31

**Key words:** social welfare, social protection, social benefits, expenditure, public budget

## 1. INTRODUCTION

Even in the competitive market economy conditions as we understand it today, the state is responsible for the welfare of its citizens. This liability materializes into a set of public policies through which the state establishes its specific objectives and seeks measures that will achieve these goals in one area or another.

In the public policies of the state an important place is occupied by the social policy. It can be defined as “a set of programs, activities, measures aimed at satisfying some human needs - more or less elementary - of social protection, education, health, housing and generally growth of social welfare through the redistribution of some resources considered to be relevant (i.e. money, services, time, etc.).”<sup>12</sup>

Each of the programs and measures mentioned above has its place in providing social welfare of citizens. But for those citizens or groups who at some point, or throughout their lives, are facing a defined set of risks, the state intervenes through what it is called a social protection system. This system, through its two main components: the social security system and the social assistance system should form a safety net for the population.

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<sup>12</sup> Pop L. M., *Politici sociale: elemente de teorie, analiză și evaluare a politicilor sociale*, Economic Publishing House, Bucharest, 2005, p. 7

The functioning of the two systems supposes the provision of benefits or of social transfers in cash or in kind, the latter taking the form of social services. Social benefits are provided under social protection schemes which are actually normative acts that regulate their granting and where the level of benefits, recipients, their sources of coverage, and others, are also mentioned.

The state budget and the local budgets are the main resources available for the authorities to finance social protection, to which are added various social funds, established through contributions and having a specific destination.

The social protection system actually involves the redistribution of national wealth from active people to those who cannot work, from healthy people to those who are sick, from the young to the old, from the rich to the poor.

Thus, benefits and social protection services can be grouped as follows:<sup>13</sup>

- transfers / services of contributory or insurance type: they are granted upon a prior contribution in general to a special social fund;

- transfers / services of universalist-categorical type: they are granted based on the criterion of belonging to a particular social group, or at risk of social vulnerability, or valued at the social level (e.g. children), or based on citizenship;

- transfers / social assistance services: they are granted based on need, the need is therefore the decisive criterion.

Finally it has to be mentioned that the level of these transfers is conditioned, to the fullest extent by the level of available resources for granting them, by economic, social and political options of the authorities on one hand, and by the degree of development of a country, by the historical component of the social protection system on the other hand, as well as by external factors, among which the best example is the global financial and economic crisis that broke out in 2008.

## **2. SOCIAL PROTECTION EXPENDITURE ANALYSIS BY TYPES OF BUDGETS**

In Romania, benefits and social services are included in transfers and social protection system expenditures which are incurred and foreseen by:

- The State budget;
- Local budgets;
- The State social insurance budget;
- The Unemployment insurance budget.

### ***2.1 Social protection expenditures within the state budget***

The structure of total state budget expenditures at current expenditures chapter, which have the largest share in total (approximately 90%) comprises transfers, i.e. sums of money for various beneficiaries. Transfers comprise transfers between government units, other transfers and social protection expenditures.

There is of course in each country and Romania is no exception, a genuine fight on the destination by type of expenditure and of course by type of beneficiaries of state budget revenues. There are authors who consider state budget expenditures as big pie from which everyone wants a slice as large as possible.

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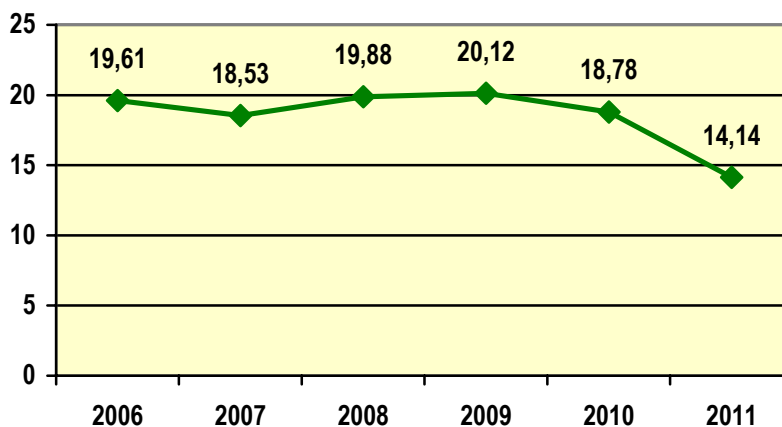
<sup>13</sup> Idem, p. 24

**Table no. 1 Social protection expenditures within the Romanian state budget in the period 2006-2011 (million)**

	2006	2007	2008	2009	2010	2011
Total revenues	40698,1	48984,6	61030,2	54678,3	68050,7	79371,2
Total expenditures, of which:	51236,6	64373,6	80889,9	89851,7	102627,7	106088,7
Transfers, of which:	20830,9	33882,7	43942,2	53179,1	64535,2	63413,3
Social protection expenditures	10,050,3	11932,2	16085,0	18082,6	19283,7	15007,7
The share of social protection expenditure in total expenditure (%)	19,61	18,53	19,88	20,12	18,78	14,14
Balance	-10537,5	-15389,0	-19859,7	-35173,3	-34577,0	-26717,5

Source: MPF, *The general consolidated budget, 2006, 2007, 2008, 2009, 2010, 2011*, <http://www.mfinante.ro/execbug.html?pagina=buletin>

The absolute value of social protection expenditure had an increasing trend during 2006-2007. The highest growth was recorded in 2008 by 34.8% compared to the previous year (Table no. 1). Instead, the year 2011 brings the first decline in the level of these expenses, by 22.17% compared to the year 2010 and far below the level of 2008.



**Figure no. 1 The share of social protection expenditure in total expenditure of the state budget in the period 2006-2011 (%)**

As it can be observed in Figure no. 1, the share of social protection expenditure in the total expenditure of the state budget had a fluctuating trend during 2006-2011. If compared to 2006, the share drops in 2007, after this year and until 2009 there is an increase, 20.12% being the highest value for the entire period. Afterwards, based on the unprecedented increase of the state budget deficit, and the reconsideration of the budgetary strategy due to obligations that our country has taken under agreements with the International Monetary Fund and relinquishment of a portion of social protection benefits granted until that time, the share starts to decrease again, this time reaching in 2011 a value of almost 5.5 percentage points lower than at the beginning of the interval.

## *2.2 Social protection expenditures within the central budget of the administrative-territorial units*

In the case of local budgets the share of expenditure on social protection is much lower than those provided in the state budget. This is due on one hand to the fact that these types of expenditures include here mostly benefits in the form of aid and other forms of income granted to persons in need based on testing their subsistence and on the other hand due to the very low level of these benefits as well as due to the number of beneficiaries who turn to them.

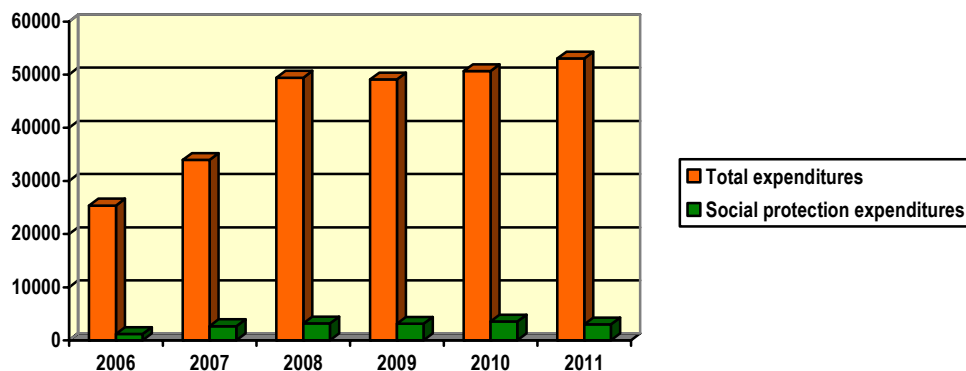
Thus, for the analyzed period, the highest share of 7.84% was recorded in 2007, followed by a decrease, except for 2010 when there was a slight increase but only by 0.67% (Table no. 2).

**Table no. 2 Social protection expenditures within the local budgets  
in period 2006-2011 (million)**

	2006	2007	2008	2009	2010	2011
Total revenues	27693,4	36803,1	45697,7	46757,6	50018,3	51858,2
Total expenditures, of which:	25360,8	33931,4	49395,6	49088,3	50631,2	53058,6
Transfers, of which:	3387,6	5922,8	5363,8	5918,7	8465,8	9896,8
Social protection expenditures	1189,4	2660,3	3159,9	3101,6	3536,3	2984,7
The share of social protection expenditure in total expenditure (%)	4,68	7,84	6,39	6,31	6,98	5,62
Balance	2332,6	2871,7	-3697,9	-2330,8	-612,8	-1200,3

Source: MPF, *The general consolidated budget, 2006, 2007, 2008, 2009, 2010, 2011*, <http://www.mfinante.ro/execbug.html?pagina=buletin>

On a local level it may be noticed that in our country the involvement of the authorities in ensuring the social welfare for those in need is unfortunately not so obvious (Figure no. 2). It is no less true that, although the state is the first guarantor of the welfare of its citizens, in other countries, especially on a local level the Community through its civil society institutions supports the social protection system and complements the public one.



**Figure no. 1 Total expenditures and social protection expenditures within the central budget of the territorial administrative units (million)**

It means to continue the argument started earlier, that in the case of the local budget, the social protection slice is smaller than the one within the state budget.

### 2.3 Social protection expenditure within the state social insurance budget

From the total revenues of the state social insurance budget the amounts of money are awarded in the form of transfers to those who have contributed the minimum period required for this budget. Contributions are compulsory payments of all employees and their employers. As it can be seen from the data in Table no. 3, transfers actually represent all social protection expenditure granted and mostly the pensions payable to those that have exceeded maximum retirement age, for those retired for medical reasons and pensioners survivors who do not have other means of subsistence.

**Table no. 3 Social protection expenditure within the state social insurance budget in the period 2006-2011 (million)**

	2006	2007	2008	2009	2010	2011
Total revenues	20311,0	24615,6	33653,9	39431,3	42871,9	48141,9
Total expenditures, of which:	18528,0	23077,4	33681,0	40389,9	42639,3	47966,3
Transfers, of which:	18084,1	22648,3	33189,9	39851,2	42106,6	47469,5
Social protection expenditures	18084,1	22648,3	33189,9	39851,2	42106,6	47469,1
The share of social protection expenditure in total expenditure (%)	97,6	98,14	98,54	98,66	98,75	98,96
Balance	1783,0	1538,3	-27,1	-958,6	232,5	175,6

Source: MPF, *The general consolidated budget, 2006, 2007, 2008, 2009, 2010, 2011*, <http://www.mfinante.ro/execbug.html?pagina=buletin>

There also needs to be mentioned that the high share of transfers in the total expenditures of this budget, amounted to 98.96% in 2011, is due to the fact that the rest are usually administrative and operating expenditures of this social fund.

The level of expenditure has registered an upward evolution throughout the period, on one hand due to the constant increase in the number of beneficiaries, and on the other hand due to the increase of the pension point underlying the calculation of the nominal pension. Its value of 339.3 lei established in September 2006, increased in only three years, i.e. in October 2009, to 732.8 lei. From that moment to the present the value of the pension point has stopped changing, however, the growing number of beneficiaries determines the increase of the expenditures.

Another important aspect is that although at the beginning of the period this budget recorded a significant surplus, in just two years it turns to deficit which during the next year, namely in 2009, is deepening. However the austerity measures imposed by the authorities led in 2010 to a new recovery in the budget, which although not at the level of previous years, is back in surplus.

#### ***2.4 Social protection expenditure within the unemployment insurance fund***

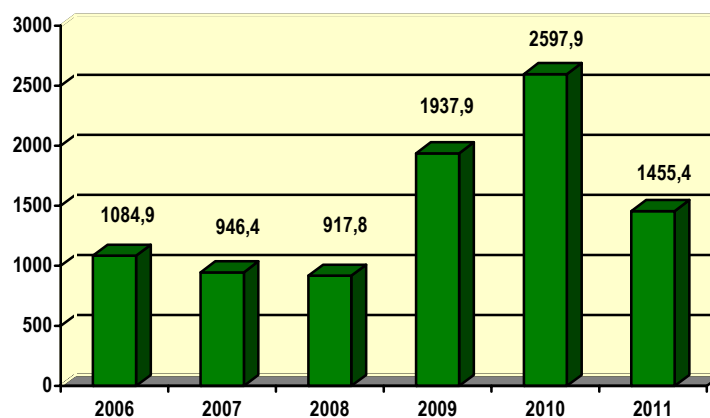
Unlike the state social insurance budget, the unemployment fund provides within transfers, besides social protection expenditures, transfers between units of public administration. But just as the state social insurance budget, its revenues are also obtained from compulsory contribution of the employees and employers. But in this case, the beneficiaries are not only contributors to the budget, but they are composed of the people who have lost their jobs as well as by the people who have recently entered the labor market and fail to find a job.

**Table no. 4 Social protection expenditure within the unemployment insurance fund in the period 2006-2011 (million)**

	2006	2007	2008	2009	2010	2011
Total revenues	2271,0	2472,1	1963,5	1482,7	1320,1	2409,4
Total expenditures, of which:	1570,8	1407,9	1355,0	2724,2	3821,8	2172,8
Transfers, of which:	1373,7	1225,4	1173,4	2557,3	3648,0	2034,5
Social protection expenditures	1084,9	946,4	917,8	1937,9	2597,9	1455,4
The share of social protection expenditure in total expenditure (%)	69,06	67,22	67,73	71,13	67,97	66,98
Balance	700,2	1064,2	608,5	-1241,5	-2501,6	236,6

Source: MPF, *The general consolidated budget, 2006, 2007, 2008, 2009, 2010, 2011*, <http://www.mfinante.ro/execbug.html?pagina=buletin>

The data presented in Table no. 4 and Figure no. 3 shows a decrease in the expenditures for unemployment benefits during the period 2006-2008, this situation is of course related to the reduction in the same time of the unemployment rate. However, the situation changes dramatically the following year when due to the global economic crisis that broke out in 2008, the labor market in Romania receives a heavy blow. This resulted in a considerable increase in the number of unemployed, which led to more than doubling of the expenses with social protection for them.



**Figure no. 3 Evolution of social protection expenditure within the unemployment insurance fund in the period 2006-2011 (million)**

In 2010 the expenditures increased again, this time with only 34%. At the end of the period under review, the expenditures have decreased by approximately 44%, their absolute level being lower than it was recorded two years ago. The explanation is that the unemployment rate, and respectively the number of unemployed who are the beneficiaries of these benefits, dropped considerably.

In general, the unemployment insurance budget is mainly on surplus, but the serious problems of the labor market due to the global crisis have created a more special situation, namely in 2009 and respectively 2010, the balance was deficient.

### 2.5 Social protection expenditure within the general consolidated budget of Romania

A brief look over the data presented in Table no. 5 is enough to make a short characterization of Romania's consolidated budget during the analyzed period. Thus, every year, the budget balance tilted towards the expenditure, resulting in a permanent deficit, the maximum peak of which was recorded the maximum point in 2009.

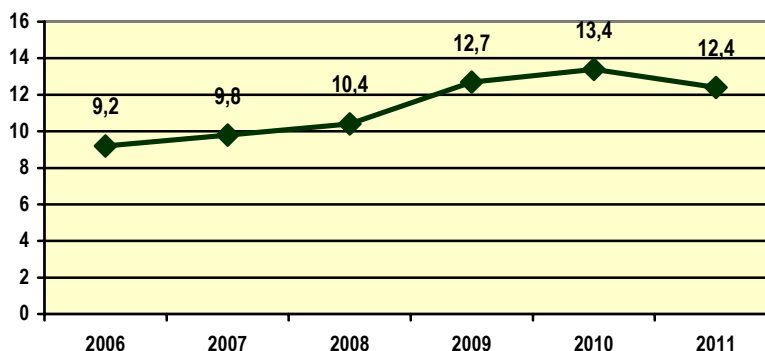
**Table no. 5 Social protection expenditure within the general consolidated budget in the period 2006-2011 (million)**

	2006	2007	2008	2009	2010	2011
Total revenues	106975,3	127108,2	164466,8	156624,9	168598,4	181566,9
Total expenditures, of which:	112626,3	136556,5	189121,7	193025,4	201903,6	205403,6
Transfers, of which:	46148,4	61090,4	78071,8	81427,5	94574,9	95171,3
Social protection expenditures	30901,7	38326,7	53592,4	63962,1	68601,9	68007,5
The share of social protection expenditure in total expenditure (%)	27,43	28,06	28,33	33,13	33,97	33,10
Balance	-5651,0	-9448,4	-24654,9	-36400,6	-33305,2	-23836,7

Source: MPF, *The general consolidated budget, 2006, 2007, 2008, 2009, 2010, 2011*, <http://www.mfinante.ro/execbug.html?pagina=buletin>

But this is also the year when social protection expenditures, which until then were around 28% of the total expenses, increase over the previous year by 5 percentage points, the share maintaining approximately constant during the next period.

The situation may seem paradoxical, but in reality it is perfectly justified. Economic and social imbalances that our country has crossed forced the policy makers to act in support of the people and especially for the most disadvantaged groups in order to reduce poverty and to avoid extreme poverty.



**Figure no. 4 Evolution of social protection expenditure within the general consolidated budget in GDP in the period 2006-2011 (%)**

The statement above it is also available for the analysis of the share of total social protection expenditures in Romania's GDP (Figure no. 4). It initially increases by 0.6 percentage points in 2007 and 2008 compared to earlier years, after that the answer to the crisis determines in 2009 an increase of 2.3%, which continues the following year as well, only slower. The latest analyzed year, 2011 represents the first decline of this indicator, the value being lower than the two previous years.

### 3. CONCLUSIONS

In recent years, Romania has tried to establish a social security system compatible with both the market economy system and the principles of welfare. But permanent underfunding problems of the budgetary system and the large number of beneficiaries, both from the social security system and from the social assistance, often makes it difficult for authorities to achieve the objectives of social policy and social protection.

The following elements stand out from the analysis carried out in the paper:

- the share of social protection expenditure incurred by the state budget has decreased considerably after 2009;

- this type of expenses have a small percentage within the local budgets, given by the low number of types of benefits to be granted from the budget, as well as by the small number of beneficiaries, and by the low value of these benefits;

- in the case of expenditures granted by the state social insurance budget, the absolute value has grown throughout the period, 2006-2011, given that, unlike the previously mentioned budgets, with a small exception in 2010, it registered a positive balance;

- the most fluctuating evolution during the period dealt with was that of the unemployment insurance budget expenditures, which is closely linked to the inflation rate and therefore to the number of registered unemployed in each year;

- per whole consolidated state budget, it could be said that the social protection system benefits from a relatively small percentage, however it is adapted to the needs of the moment and solves social problems, as happened in the years after the economic crisis occurred;

- in the share of the social protection expenditure in Romania's GDP, it is estimated, based on the data collected from Eurostat, that it is well below the EU average, representing in fact half or less than half of it.

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