

**ROMANIAN ACADEMY**

**NATIONAL INSTITUTE FOR ECONOMIC RESEARCH**

**INSTITUTE FOR QUALITY OF LIFE RESEARCH**

**Social Report of IQLR 2011**

**Romania: answers to the crisis**



*Bucharest  
2011*



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**Romania: answers to the crisis**

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National Institute for Economic Research *Costin C. Kirițescu*

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## List of abbreviations

AT	Austria
BE	Belgium
DE	Denmark
FI	Finland
FR	France
DK	Germany
GR	Greece
IE	Ireland
IT	Italy
LE	Luxemburg
NL	The Netherlands
PT	Portugal
ES	Spain
SE	Sweden
UK	United Kingdom
CY	Cyprus
CZ	Czechia
EE	Estonia
HU	Hungary
LV	Latvia
LT	Lithuania
MT	Malta
PL	Poland
SK	Slovakia
SL	Slovenia
BG	Bulgaria
RO	Romania
EU	European Union
EU 15	European Union member states before 2004
EU 27	European Union member states starting with 2007
	Candidate countries which have accessed the European Union
AC 12	between 2004-2007
BFM	Labour force balance
WB	World Bank
BNR	National Bank of Romania
CE	European Commission
DGPC	General Directorate for Child Protection
EB72, EB74	Eurobarometer 72, Eurobarometer 74
Eurostat	European Institute for Statistics
IMF	International Monetary Fund
INS	National Institute of Statistics
MMFES	Ministry of Labour, Family and Equal Opportunity
MGI	Minimal guaranteed income

## Goal of the Report and its conclusion

The crisis which Romania experiences sparked discussions on its nature, on the ways out of it and on the revival of the Romanian society. We considered our duty to present our point of view too, which also is an answer to the feeling of not finding a satisfactory solution to the crisis challenging us.

The Report doesn't provide miraculous solutions; it documents the fact that we are blocked in an incapacity to come with solutions and to implement them. How can we get unblocked?

The crisis confronting Romania actually is a complex of interconnected crises: fiscal-budgetary, economic, political, moral and of knowledge. The report draws attention on the diagnosis of the problems challenging us, the success of the adopted solutions depending on its correctness. Our crisis doesn't come from the state of the socio-economic system only; rather, surprisingly, it is stressed by the deficit of comprehension of the nature of the problems confronting us.

The Report discusses a fundamental matter: which is the variable on which we should act?

Some variables are blocked, and we say they are like a *cotton wad wall*. When you act on them you have the illusion of a guaranteed success, but soon the resistance of the wall increases. Many directions of intervention that have been taken into consideration are *cotton wad walls*. Even more, some solutions that have been proposed can deepen the crisis challenging Romania.

Which is the strategic variable whose effect spreads by changes in the body of the system, unblocking the crisis? Our conclusion is that the economy by itself can not provide solutions to getting out of the crisis. The problem lies elsewhere, more precisely in the functioning of the entire socio-economic system. The crisis is of the entire society, so that only a global approach of the society can identify the adequate solution.

The Report argues that the strategic variable is in the field of politics: only political measures can take the country out of crisis. But the political system itself has been blocked for the past two decades by conflicts of unprecedented strength.

*How can the political system be unblocked* is another crucial matter which the Report tries to answer.

One strategy is to let things run naturally towards the better, quarter after quarter. Waiting also is a strategy, but it only provides for underdevelopment. *The only chance to get out of the crisis by development is to build a consensual strategy.*

This crisis is confronted not just with a political stalemate, but also with a knowledge deadlock too. Some public discussions rely unfortunately on lack of knowledge or on elementary errors of the social policy theory. Therefore, the Report has two goals: on the one hand it provides an analysis of



the crisis confronting Romania and of the answers discussed within the public space; on the other hand, it includes two chapters (3 and 4) which present synthetically the functions of the social state in the modern world.

## **Chapter 1: Nature of the crisis confronting Romania and solutions to it**

We are increasingly aware that our society is confronted with a severe crisis, or better said, with a complex of crises. There is, however, confusion regarding the *nature of the crisis* challenging Romania; hence, the confusion of the proposed solutions. The *solutions always depend* on the way in which the problem to be solved is defined.

*The deficit of understanding the nature of the crisis existing within the Romanian society has a major contribution to the amplitude of the crisis and to the incapacity of getting past it at a bearable cost.*

We need to put another question yet: which is the cause of the deficit of collective thinking? Why is it so difficult to understand clearly the nature of the problems confronting us and, thus, to seek the correct solutions?

In any situation of crisis, you wonder, naturally: where shall we start, which is the problem whose solution will ease finding the solution to the whole crisis? The evolution of the crisis has always been accompanied by an evolution of assuming the crisis and of the way in which it is understood.

### **Five stages of the diagnosis to the crisis**

#### **Stage 1: Denial, then a delayed acknowledgement of the crisis**

In 2008, governmental prominent governmental members declared that Romania is not and will not be in crisis: America is too far for its problems to affect us. Later, in early 2009, they admitted we are confronted with a crisis, but that we will get past it without major problems.

Acknowledging late the crisis, we are one of the countries which still don't have a coherent vision about *how* and *when* we will get past it. The official admission of the crisis is important, but not enough. We also have to know:

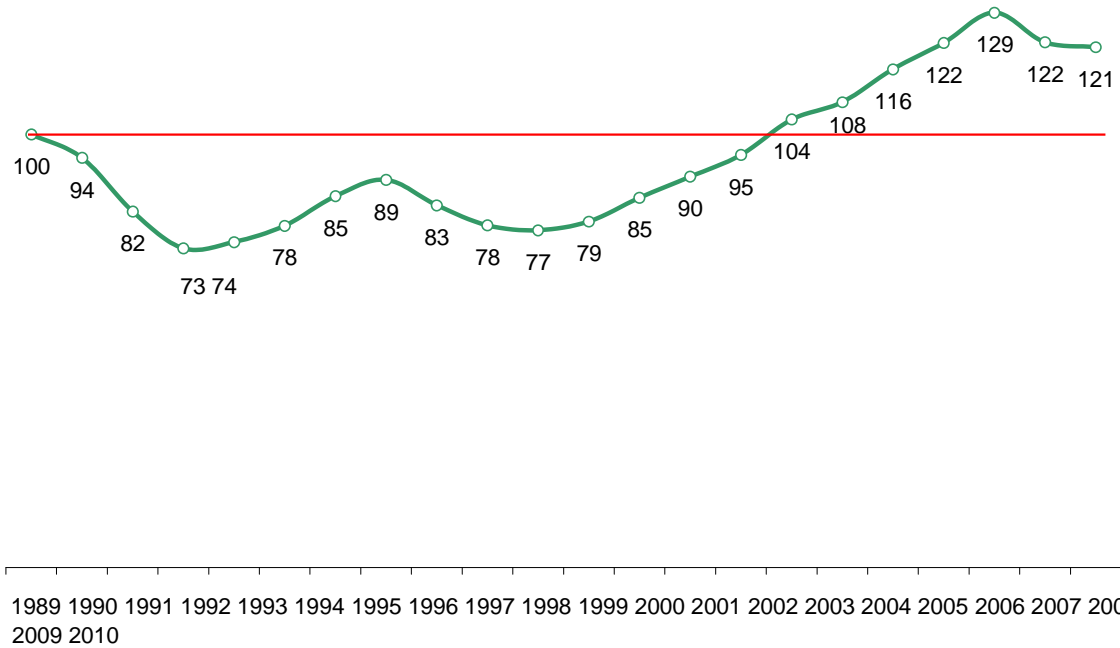
- *What kind of crisis* is the governance assuming;
- Which is the underlying diagnosis for the proposed solutions;
- What chances do these solutions stand.

#### **Stage 2: The crisis of Romania is induced by the world crisis**

Thus diagnosed the crisis of Romania, the solution is to wait and it will pass together with the world crisis. The revival of the world economy will increase the foreign investments and thus, our economy will grow unavoidably. As for the rest, there are no serious problems with the Romanian society. This is a temporary crisis of trust on the side of the investors, and we will have to be more attractive for them.

**Chart 1 – GDP in Romania**

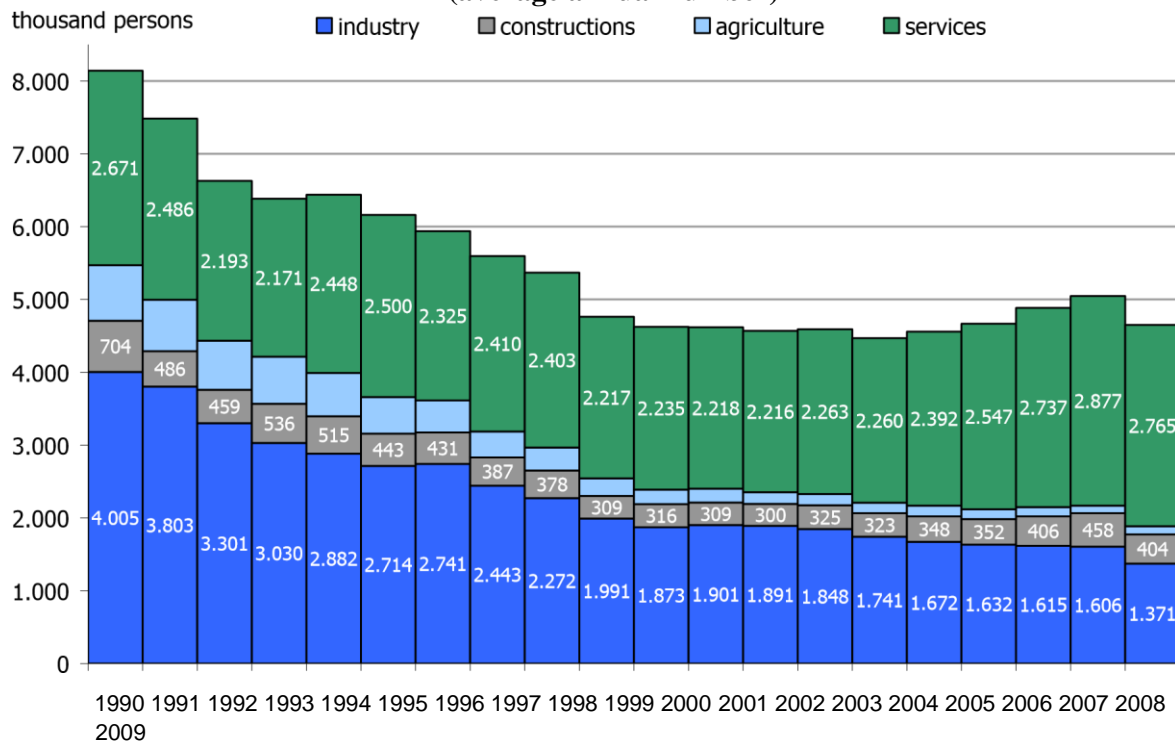
1989 = 100



Source: Calculated using INS, BNR

data

**Chart 2 – Employee structure by sector of activity  
(average annual number)**



Source: INS

### **Stage 3: The crisis in Romania is a crisis of the budget**

The budget no longer has enough revenues and it cannot cope with the assumed expenditure. We are thus confronted with a budget deficit. The *too large expenditures* are the cause which has been officially identified for the budget deficit. The budget reached a point of unsustainability, *suffocating* the economy, “*cutting its own prop*”.

Why is the budget too large? Because the *state is too large*. It is the classical image of the *fat man on the back of the thin man*<sup>1</sup>. The state is like the fat man which is carried on the back of a thin man, the private sector. The budgetary sector cannot assume such high standards of incomes and wages as long as the money fuelling it comes from the private sector. The state is too large, exceeding the possibilities of the real economy. Therefore, this is not a circumstantial problem, rather a deep, structural problem. Romania developed historically an excessively large state, which is accountable for the budgetary crisis. The public sector has to be reorganised, the same way as the private sector has been reorganised.

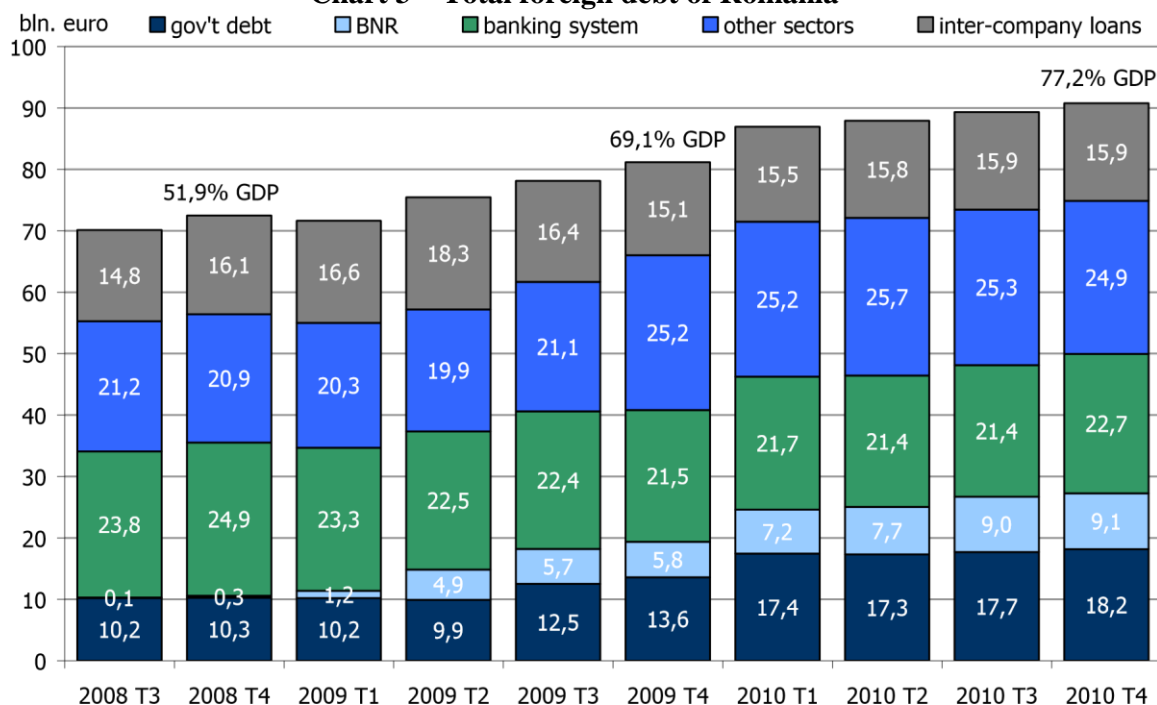
### **Stage 4: The crisis is just secondarily a budgetary one, actually being a financial crisis**

Part of the specialists considers that we need a change of perspective: the current crisis is just secondarily a *budget crisis*, being more of a *financial crisis*. Reducing the crisis to the budget deficit, we ignore the financial crisis. They are treating the effects, not the causes. The large loans, of about 20 billion Euros, are not meant primarily to balance the budget; rather they are intended for the global financial equilibration of the country. The cause of the financial disequilibrium is yet to be explained clearly and, consequently, no measure to avoid future crisis are foreseen.

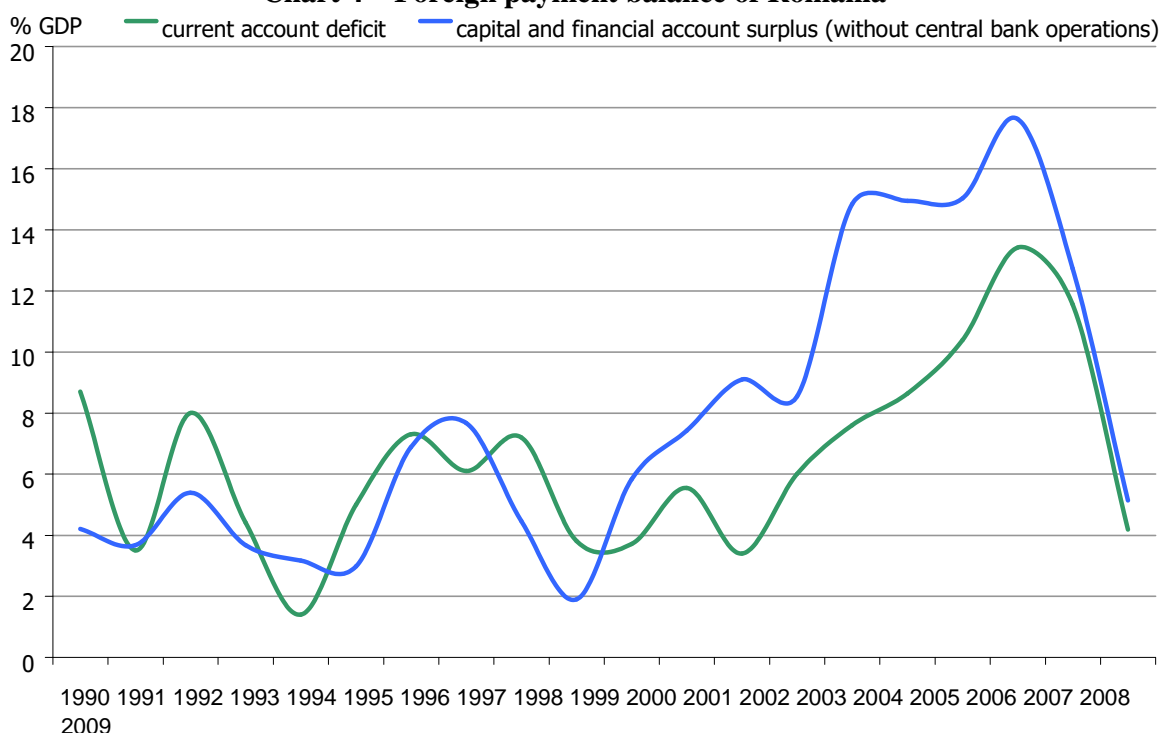
### **Stage 5: Economic crisis**

The precarious state of the economy is not caused mainly by the budgetary-financial deficit, although the latter worsens the former; rather, it resides in its very structure. The Romanian economy has lost strategic positions. Production facilities have been shut down although, once reorganised, they might have become sustainable sources for economic growth. Therefore, the number of jobs has been reduced to a half and the private initiative didn't meet the expectations, being minor and of poor quality. After 21 years of reforms the economy still cannot offer the resources necessary for the collective wealth. Almost 900,000 jobs<sup>2</sup> have been lost only during the past 2 years.

An aggravating factor of the current crisis is that the seriousness of the structural problems of the economy is not acknowledged. The current discussions keep saying that there is no credible strategy to stimulate the sustainable economic growth. The opposition parties criticise the government for not taking significant measures for economic revival, but this criticism suffers of shyness because the opposition too, displays a deficit of imagination in this field.

**Chart 3 – Total foreign debt of Romania**

Source: BNR, IMF

**Chart 4 – Foreign payment balance of Romania**

Source: BNR

Explanation: Current account deficit: situation in which the value of (1) the exports of goods and services and (2) of the financial transfers from abroad is exceeded by the value of the (1) the imports of goods and services and (2) of the financial transfers abroad; Surplus of the capital and financial account (without BNR transactions): situation in which the value of (1) the shares in enterprises, real estate (buildings, lands) sold towards foreign entities, and the value of (2) the foreign loans exceeds the value of the real estate in foreign countries and the debts of foreign entities, resulting a position of net debtor; these data don't include BNR transactions.

### **Solutions under discussion**

Many times, the difficulty is not the lack of solutions, rather the large number of solutions; therefore we don't know which are the solutions solving our problems and which are the wrong ones, the dead ends, which waste our resources and efforts. Groping between solutions, the crisis deepens.

### **The first solution: the loan**

In early 2009, the Government declared that we have an economic crisis, but failed to identify clearly the nature of the crisis. The solution adopted in the spring of 2009 was to take a loan from the international financial institutions (IMF, World Bank, EBRD, EBI) and the EU. Thus, we had available about *20 billion Euros* to be used in 2009-2010, but there was no explanation given why we need such a large amount of money and, particularly, which is the exact destination of the money.

Romania was not the only country in the region which took a loan from the international financial institutions. The loan was part of the *Initiative of coordination of the European banking sector*, by which the European Commission and the international financial institutions made available a package of financial assistance amounting to 71 billion Euros<sup>3</sup> to the Central and South-Eastern European countries.

The purpose of the *Initiative* was to avoid a regional financial crisis. The west European banks were in a crisis of capital and they were exposed to massive losses due to the financial crisis which started in the United States. Under these conditions, they could no longer fund their branches from the Central and South-Eastern European countries; these branches had granted massive loans to the population for real estate transactions, for consumption and for personal needs. The financial system from these countries, Romania included, was at the risk of collapse.

### **The real problem**

In 2008, the Romanian economy had an increasing foreign deficit. The value of the goods and services consumed in Romania but originating from outside the country exceeded by far the value of the exported goods and services. In other words, the bill for the imports exceeded the foreign currency earned from exports and by the Romanian people working abroad. The difference was covered either from foreign loans, which increased the private debt, or from the sale of enterprises, buildings, real estate, hence the real estate euphoria. By the end of 2008 and early 2009, the foreign financing routes were blocked (Voinea, 2009).

The total foreign debt of Romania had reached 72.5 billion Euros by the end of 2008, the equivalent of 51.9% of the GDP. From it, the public debt accounted for less than 10.6 billion Euros. The balance consisted of *private foreign debts* of the banks, enterprises and the population.

#### **What is a strategic variable?**

The complex systems are a bundle of interdependent problems. There are many problems which should be approached, but many of them depend on other problems and they as a *cotton wad wall*. After the first modest successes, the efforts don't pay off any more. The system holds to

the change. Moreover, they don't untie the bundle of problems, they don't spread changes in the body of the system. They are *blocked variables*, not strategic variables.

A *strategic variable* is that one which unties the bundle or which induces significant changes in the chain.

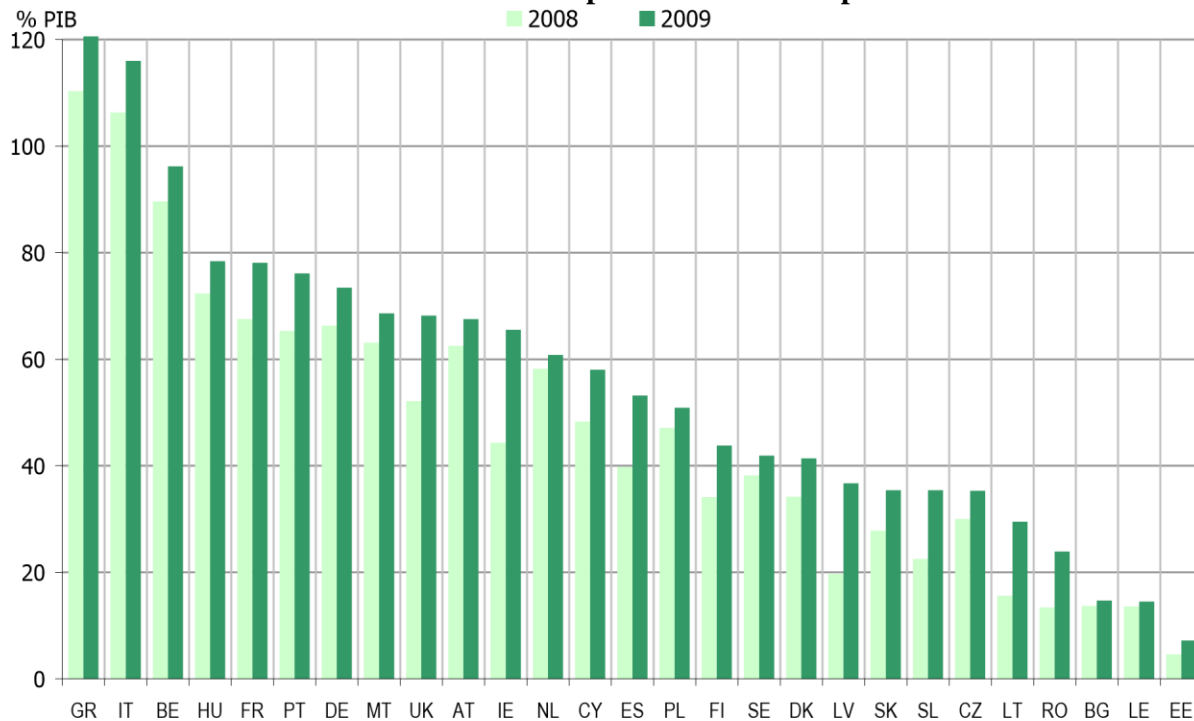
Bottom line: it is a loss of energy to get stuck in problems, real indeed, but *blocked*, which don't cause chain changes, thus taking us out of crisis. It is vital to identify the strategic variable(s).

**Table 1. Countries with a larger budget deficit than Romania, in 2009**

Country	% GDP	Country	% GDP
Greece	-15.4	Latvia	-10.2
Ireland	-14.4	Island	-10.0
United Kingdom	-11.3	Portugal	-9.4
Spain	-11.1	Lithuania	-9.1

Source: Eurostat

**Chart 5 – Total public debt in Europe**



Source: Eurostat The public debt of Romania was among the lowest in Europe both in 2008 and in 2009.

What would have happened if a solution would have not been found to support the foreign payments, most of which were private debts? An economic chaos, as shown by the steep depreciation of the national currency in relation with other currencies, which results in bankruptcy and unemployment. The sudden fall of the national currency in early 1997 was the signal for the previous economic decline between 1997-1999.

*In fact, the bulk of the money from IMF were not used to finance the public deficit<sup>4</sup>, rather, it was used to increase the foreign currency reserves.* A higher reserve of foreign currency could keep somehow under control the exchange rate and part of the foreign payments could be done, most of them being private debts of the previous years.

The foreign loan was a palliative. It was not a solution to the structural problems of the Romanian pattern economic growth from the previous years, which have generated increasing private foreign debts. The loan allowed just for the temporary cover of those debts. More seriously, the structural problems of the economy were not explained to the population, which will have to bear the cost of the foreign debt. Not only that the private foreign debt was not acknowledged as a serious problem, which has put the government in a difficult spot, but moreover, it seems that there is no policy outlined which to control the increase of the private liability with no cover. Another subject was preferred, which has thrown the public debate in a completely different direction.

### **The second solution: balancing the budget**

In the governmental discourse, the profound problem of the financial crisis was replaced by the dramatization of the budget deficit seriousness using the image of the life with debts. The public deficits exceeded a little the 3% limit of the GDP, as imposed by the EU Pact of stability, but they increased strongly in 2009 and 2010.

In fact, the budget deficits of Romania, although worrying, are lower than the budget deficits of many European countries (Table 1). The *fear* refers not to the present, rather to the future. If we don't take severe measures now, we risk ending as a country buried in debts, which no one is willing to borough anymore.

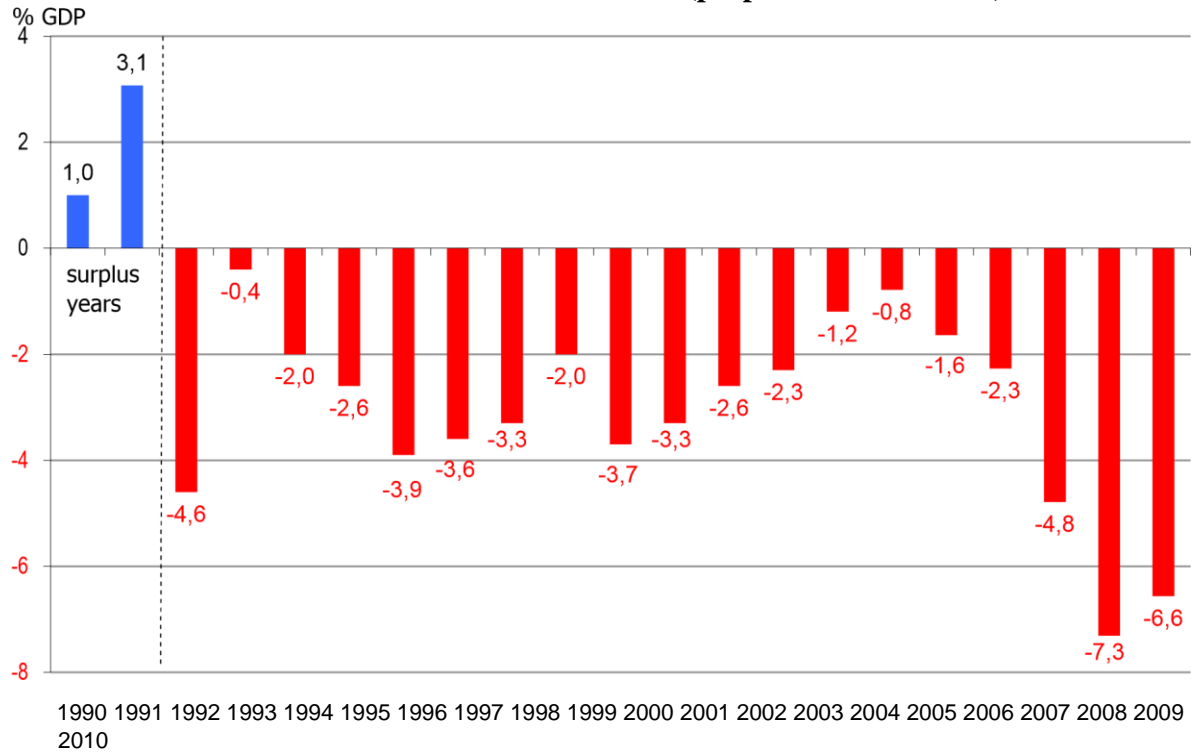
The strategy of getting out of the crisis, promoted by the ideology of the minimal state, is *to cut the public expenditure*. The strategic goal is to achieve a healthy budget equilibrium, but at a minimal level. This strategy relies on a *hope*, insufficiently argued: it will provide automatically the premises of a healthy economic revival. The more we cut the public expenditure, the more credible we become.

### **Sources of the budget misbalance**

The origin of the deficit has been identified in the excessive public expenditure, particularly the social expenditure, during the years previous to the crisis. Thus, our problem is that the Romanian state is conceived as a *social state*. A lot of negative labels have been issued: *assistentialist state*, *providential state*. The solution is to abandon the outdated ideology of the social state.

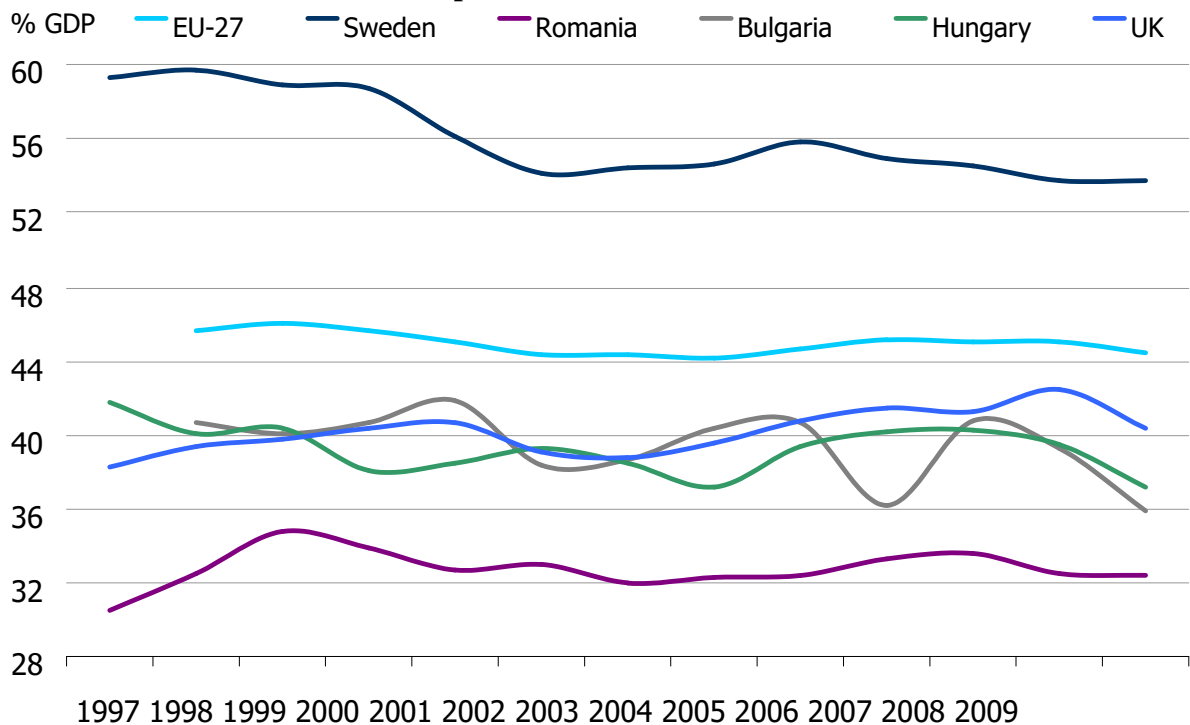


**Chart 6 –Public deficit of Romania (proportion of the GDP)**



Source: calculated using INS, BNR, MFP data

**Chart 7 – Total public revenue of the EU member states**



Instead of working and producing for themselves, the people subsist by *exploiting* the budget. The state does something it should not do: it *assists* an excessively large proportion of the population. The government evaluates that in Romania there are over *12 million* (more than half of the population) of “socially assisted”<sup>5</sup> people. This statement has some truth in it. There are examples suggesting that people are unwarrantably benefiting of social assistance. The problem of this type of analysis is that the formulation is blurred. And, as a rule, the confusion which apparently seems to be true, contains a gross inadvertence and generates a false solution.

The solution, thus, is to decrease the social component of the budget, to abandon the wrong ideology of the social state (assistentialist state). Therefore, we *cut* the social expenditure: the pensions, the allocations for families and children. Public statement: the state is not accountable for the welfare of each individual. The social public expenditure is unnatural because the personal welfare is an individual responsibility of each person and their families, not of the state.

### **Budget cuts: a blocked variant to get out of the crisis**

Within the context of the economic crisis we are experiencing, it is only normal to be worried by the deficit and to take measures, although compared to other countries such as Greece and Ireland, the debt is not too large.

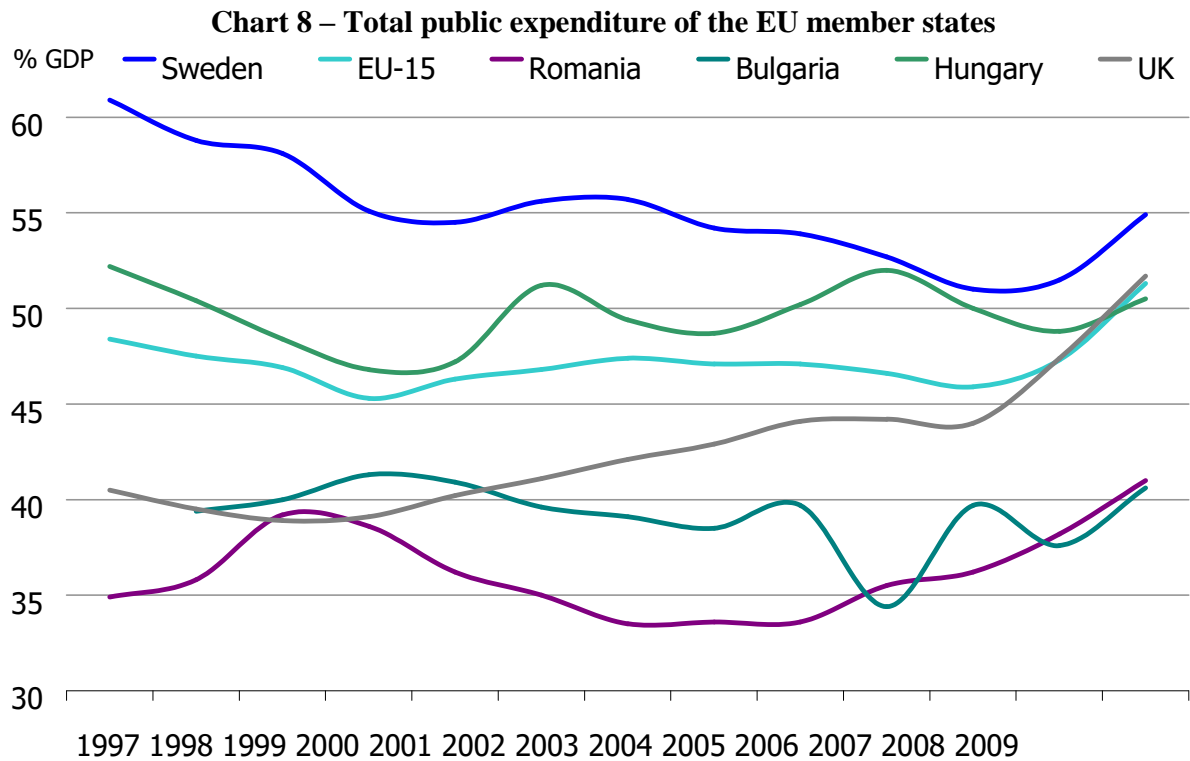
The public debt comes from the sum of the current year deficit plus the deficit of the previous years. The budgets of the years 2000 had deficits, but the economy was increasing steadily. Thus, the GDP proportion of the medium-term and long-term foreign public debt decreased from 12.4% in 2002, to 6.5% by the end of 2008<sup>6</sup>.

Then, where from the large deficit from 2009? Compared to the previous year, the public revenue decreased, in real terms, by 8.9%. Thus, the revenue collected by taxes and dues decreased by 10.7%, while the public expenditure decreased only by 2.8%<sup>7</sup>. Therefore, the *source of the deficit is not the increase of the expenditure, rather the steep decrease of the revenues*, whose cause resides largely in the fall of the economy. Less jobs, lower sales of the companies, all these meaning less revenue from the taxes on wages, VAT, tax of profit etc.

In 2010, the reduction of the deficit was possible by a steeper decrease of the expenditure than of the revenues. The price to pay was the increase of fiscality. The VAT, the main source of the fiscal revenue after the introduction of the flat rate, increased from 19% to 24%. In parallel, the main measure to reduce the expenditure was the 20% cut of the wages in the public sector.

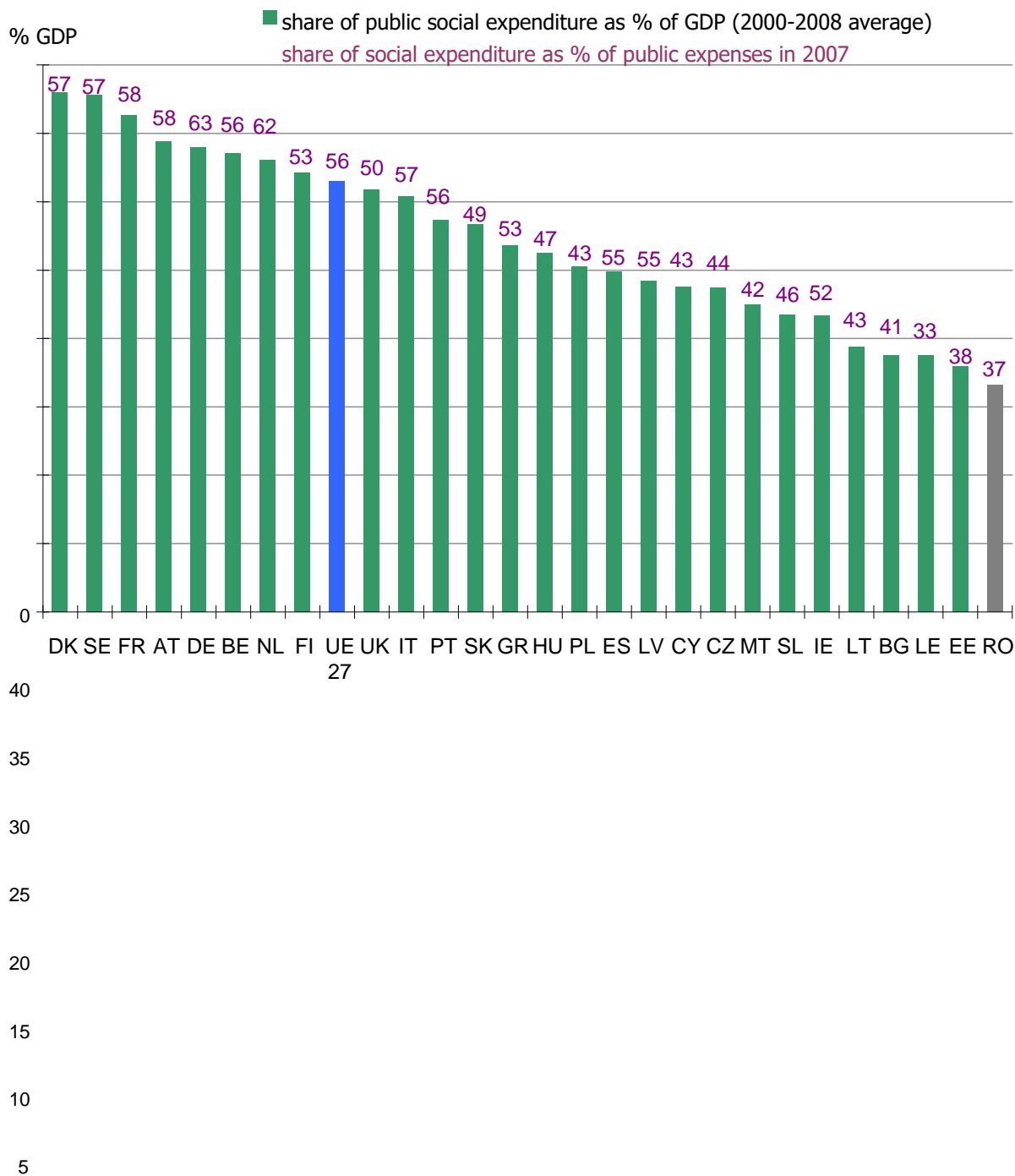
By promoting the ideology of the minimal state, the focus *shifts* from the *goal of achieving the budget equilibrium*, which might have been understood as a temporary measure, to the *permanent reduction of the public funding*. The proposed program is therefore more ambitious than just getting

out of the crisis: the *reform of the state in all its components, and this means dismantling the social state.*



Source: Eurostat

**Chart 9 – Social public expenditure in Europe (average of 2000-2007)**



Source: Eurostat

The fat man theory, the oversized state, carried on the back of the thin man, relies on arguments hard to support by objective data. The handiest key-indicator for evaluation is the ratio of the budget to the GDP, to the capacity of the economic production. It is interesting to see which is the situation of this chapter in comparison with other EU member states, particularly the ones neighbouring us.

In Romania of 1997-2009 the average value of the public expenditure within the GDP didn't reach 33%, while the European (EU-27) average value is 45% of the GDP<sup>8</sup>. We were ranking therefore, on the bottom position in Europe, even after our neighbours Bulgaria (39.5%) and Hungary (43.6%). In terms of the expenditure, during the same period, we are on the before last position in Europe, before Ireland (35.9%).

In 2009, under conditions of crisis, all the European states, except for Malta, *increased* the public expenditure as means to absorb the social shock.

Romania *doesn't have a too large state* in relation with the size of the economy; on the contrary, *it is the smallest state* in Europe, much behind the average European states. If Romania wants to get closer to the western-European pattern of development, it will have to increase the public revenue, not to decrease it. The fact that Romanian has the lowest public revenues, in relation with the size of the economy, derives exactly from the fact that it has a weak state which, either doesn't levy some incomes from the economy, or can't collect the taxes due to tax evasion.

The reduction of the state's functions will have negative effects in all the sectors of our society, being a factor which predisposes to getting stuck in underdevelopment thus yielding high risks for chaos.

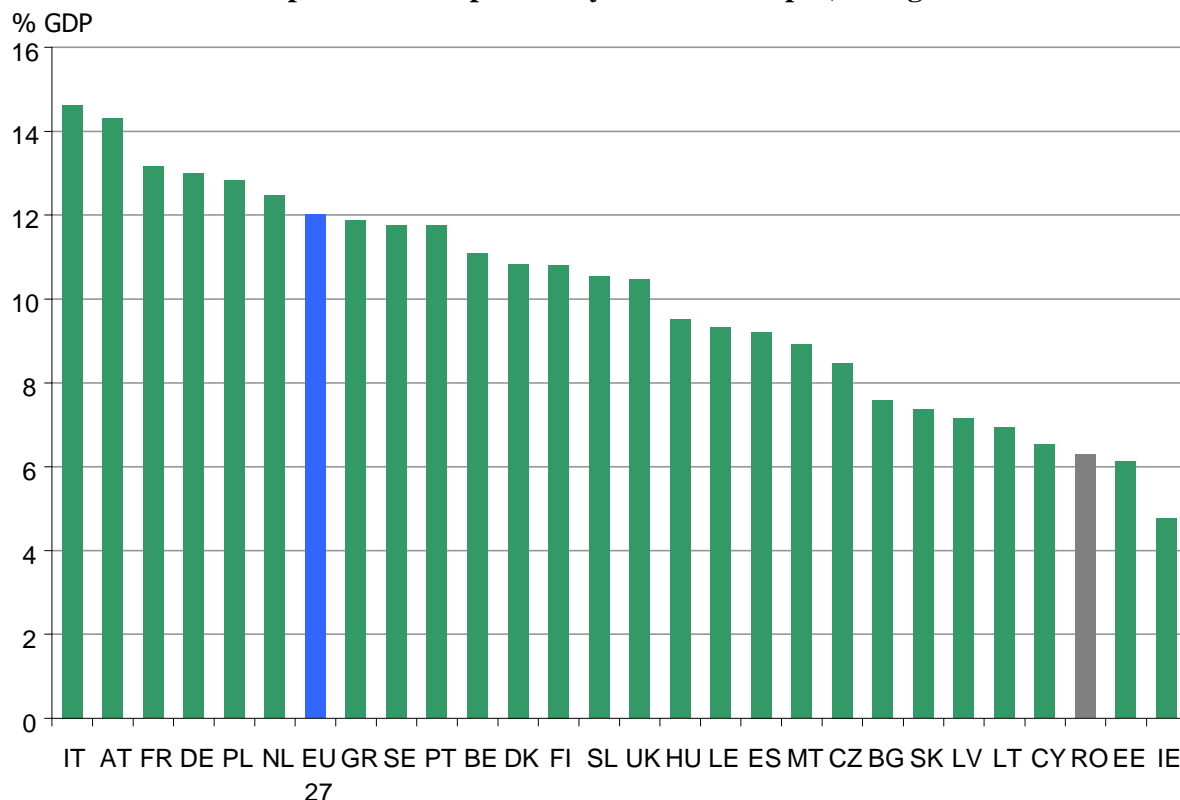
### **Is the public social expenditure excessive in Romania?**

In this matter we will only bring a comparative argument: the public social expenditure is undersized compared to other European countries. The social expenditure includes the social insurance systems (pensions, health care, unemployment), the social assistance and the universal public services, the most important one being the education.

The proportion of the public social expenditure within the GDP is the synthetic indicator which shows the state assumed the responsibility for the production and balancing of welfare and for the effort of social development.. Some international organisations, such as the OECD, regard the education not as expenditure, rather as an investment in labour force.

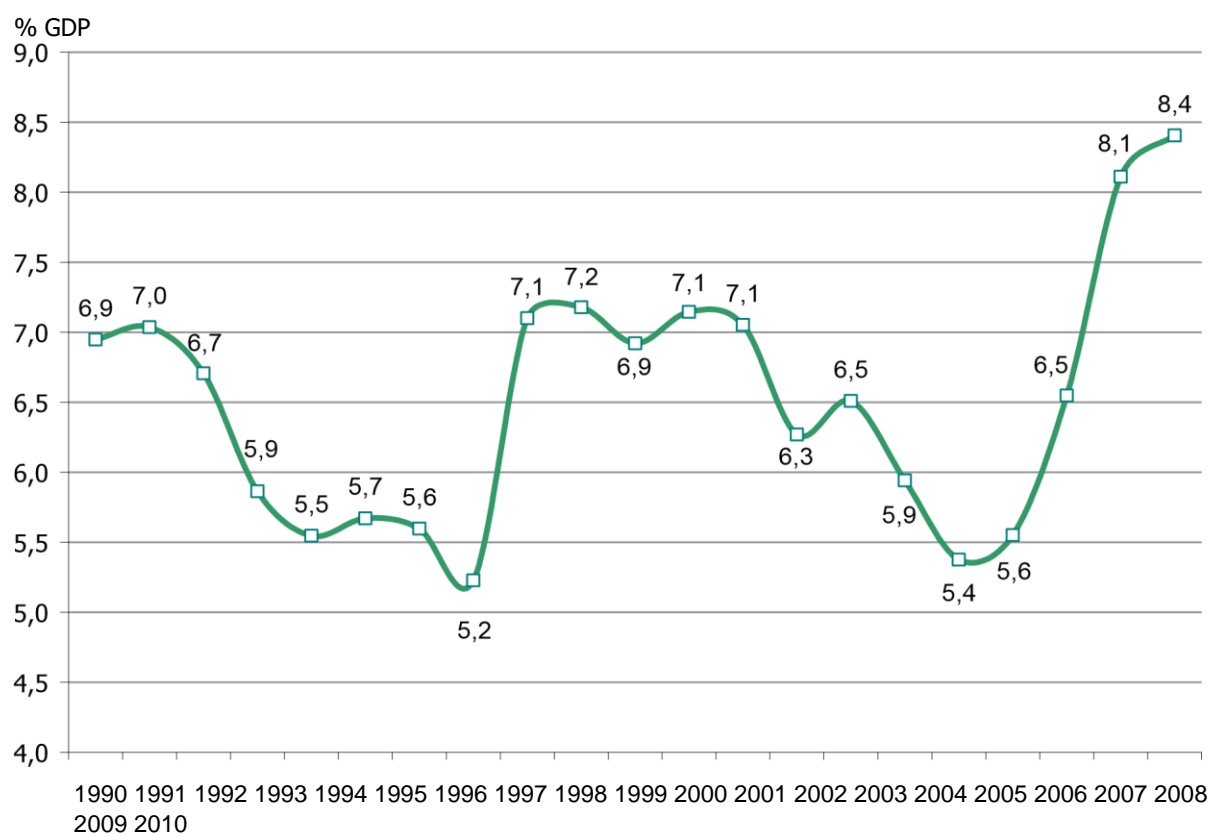
Unfortunately, there are not yet available international data for the past two years, but the existing data may provide an overall image. In the period 2000-2007, the Romanian state kept the social expenditure at the lowest level in Europe: less than 17% of the GDP. These data don't fit with the image of an oversized social state, rather the contrary.

**Chart 10 – Public expenditure for pension systems in Europe (average value for 2000-2008)**



Source: Eurostat

**Chart 11 – Public expenditure for the pension system in Romania**



In Romania, the social expenditure acquired a negative connotation of “social assistance”. Most probably, the origin lies in a “material error” of the Ministry of Finances, which classifies all the expenditures with social destination as social assistance. The bureaucratic confusion has been passed to the political discourse too.

The proportion of the social expenditure within the budget shows their position in the order of priorities. In 2008 (the most recent data, except for the education), the Romanian state has allocated to the social field only 37.3% from the overall public expenditure, which puts us on the penultimate position in Europe, before Latvia (32.5%). As a matter of comparison, the European average was 56.2%. The neighbouring former socialist countries have allocated much more: Bulgaria (41%), Slovakia (45.8%), Hungary (46.5%). Of the old EU member states (EU 15), the United Kingdom (50%) had the lowest proportion of the social expenditure within the total public expenditure, while Germany allocated the highest proportion (63.4%) (Chart 9).

Traditionally, the public system of pensions is the main category of public social expenditure. Although they are a component of the social protection system, they operate according to a specific logic. Although the fund is administered by the state, it only manages an economic and social contract between generations. The money actually belong to the insured people who are contributing at this moment and in the past, but who are now in incapacity of working due to the old age.

The proportion of the social insurance expenditure in Romania is much below the European average. Only Estonia and Ireland spend less than we do for the public fund of pensions. The increase of pensions in 2008 and 2009 brought the proportion of the social insurance expenditure reached 8% of the GDP, while the European average is 12%. Despite the image of the state as poor administrator, the administrative expenditure from the fund pf pensions didn't exceed 2% from the total expenditure of the fund during the recent years (INR 2009 Yearbook).

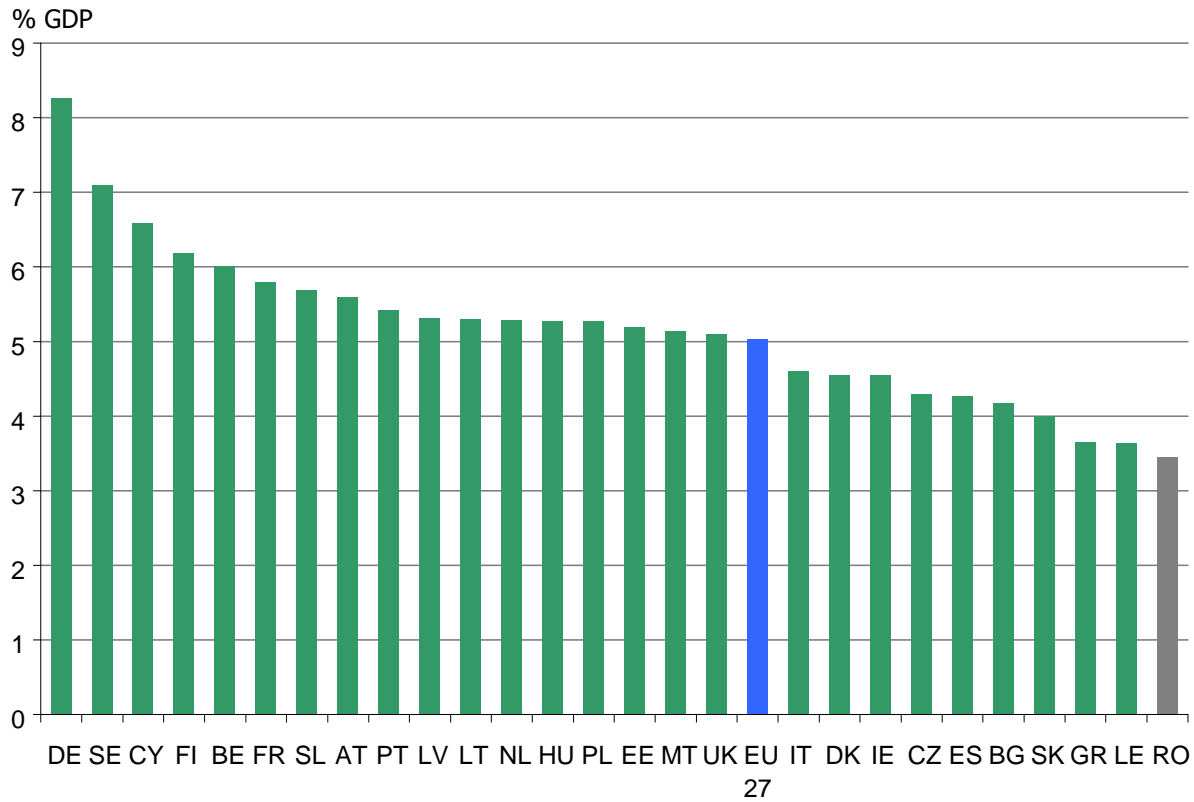
The system of education is the most important social public service, both in terms of number of people that are covered by the system, school pupils and teachers, and in terms of expenditure. The 1995 Law of education stipulated an amount of public financing of at least 4% of the GDP. This minimal level has been reached only once, in 2007.

Romania is on the bottom position in Europe in terms of the public financing of the education. During the past decade, the budget allocations for education were about 3.5% of the GDP, compared to a European average of 5%. The difference is apparently low as percent points, but reaching it would suppose to increase the public funds for education by more than 25%.

After the reform from the late 90s, made under the guidance of the World Bank, Romania has a health care system with dual financing. Most of the expenditure is covered from a system of insurances. Like in the case of the pensions, the state should be a mere administrator, the money

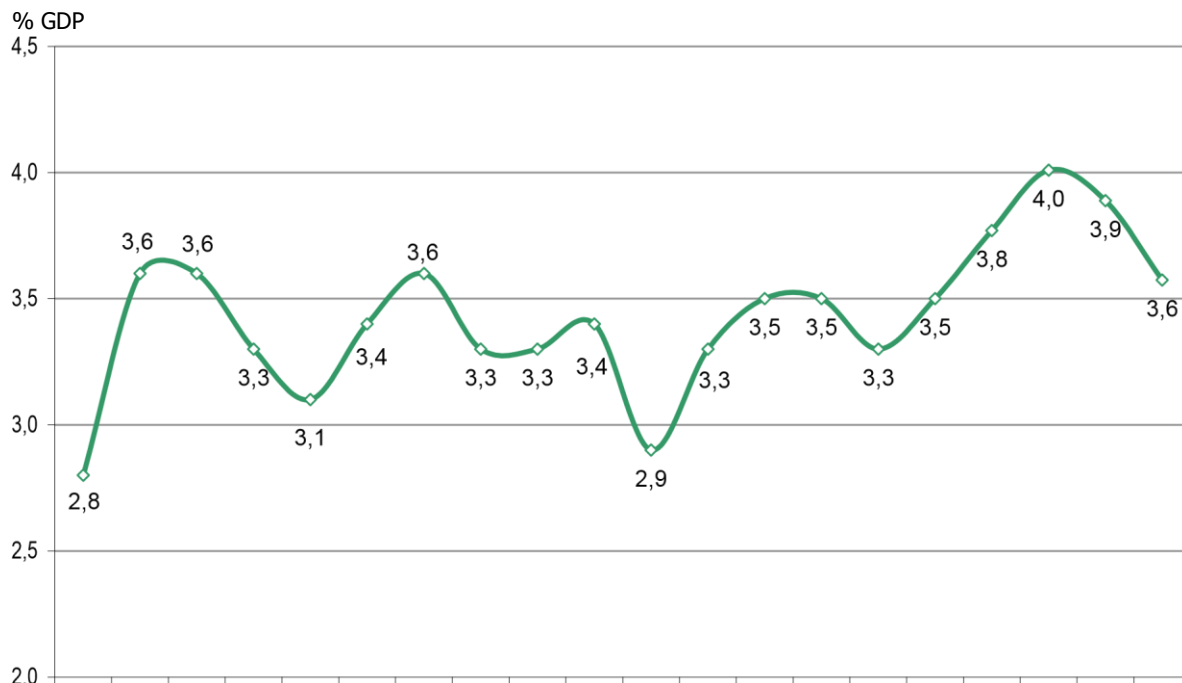
belonging to the ensured people. Another financing, much lower, is given directly from the state budget and from the local budgets.

**Chart 12 – Public expenditure for education in Europe (average value for 2000-2007)**



Source: Eurostat

**Chart 13 – Public expenditure for education in Romania**





Source: INS

During the past decade, the Romanian state allocated about 3.5% of the GDP for health, which puts us, again, at the bottom. Only Bulgaria (3.4%) and Latvia (3.3%) spend less than Romania. The European average is 7.7% of the GDP, France having the highest expenditure for health (9%).

Both the health care and the education have been severely underfinanced, much behind the bulk of the European states. This permanent state of underfinancing caused these systems to disintegrate. The valuable human resources were not motivated to remain within the system. The people who remained are demoralized. As a consequence, the teachers and the doctors are among the socioprofessional categories that have lost most from their social prestige. Compared to the previous generation, much less young people are willing to practice these badly paid professions. Those who remained are warned not to expect more from the public sector, and if they want more they should go to the private sector.

Decentralization, promoted as a panacea, created administrative chaos, visible mainly by the fact that the hospitals have been transferred into the suborder of the local councils. The appointment of the school principals and the employment of teachers by the mayor leave place for abuse and politicization.

There seems to be a strong political orientation towards the privatization of these two large public services, despite the negative social consequences. As long as it remains under the administration of the state, the education and health care are labelled as resource consumers and non-performant. If they turn private, all problems seem to vanish, even if the access to education and health care will thus be severely limited. These are rights, defined as such in international conventions to which Romania is part, they are not commodities.

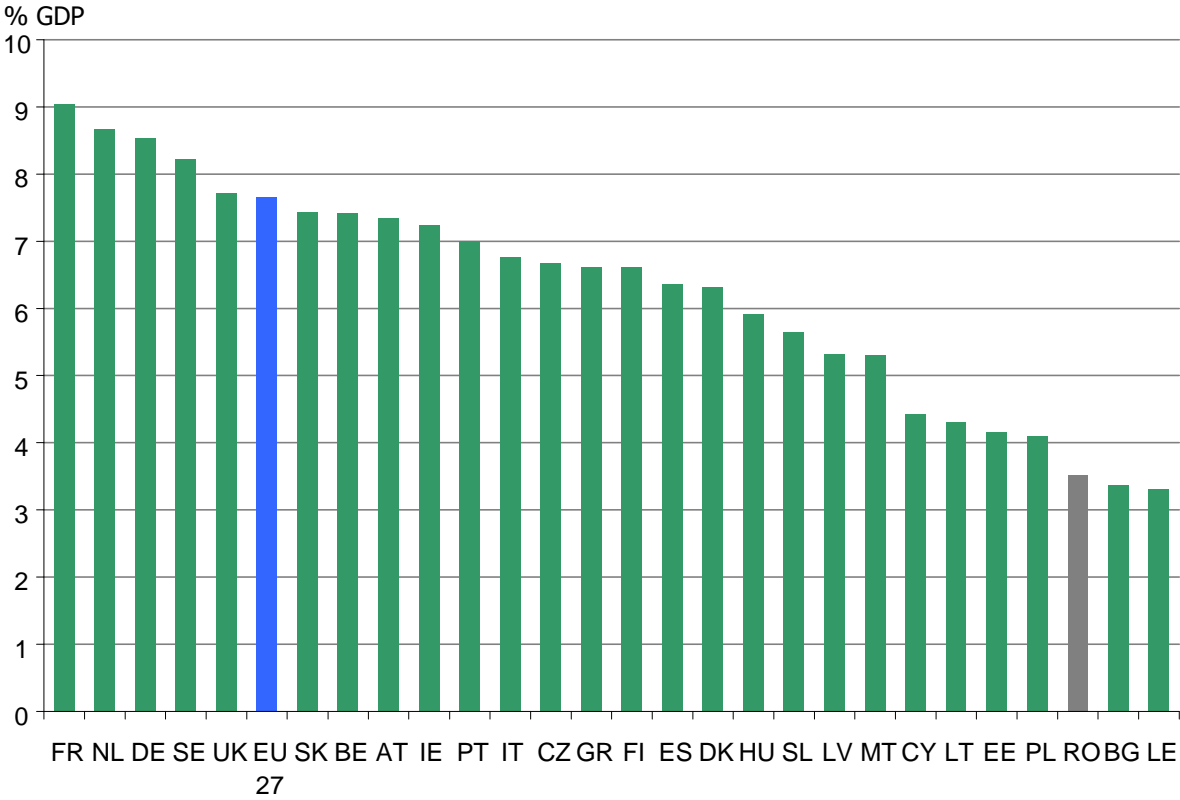
In this discussion we must start from a common historic truth: the state is not a mere consumer of welfare, it also is a producer of welfare: education, health, science, public and social security. The probable effect of privatization is a higher social polarization, the expanding poor segment being doomed to precarious education and to a health state with an increasingly poorer support.

*The strategy of the budget cuts is a political manoeuvre to throw the costs of the foreign private debt on the back of the bulk of population, and the reduction of the budget is an illusory solution.*

The policy of cutting the expenditure, even if it would be a wise decision, is a blocked *cotton wad wall*-type variant under the current conditions of Romania, not a strategic variant. You advance easily in the beginning, but the resistance of the wall increases suddenly. The budget can be downsized a little, not too much, but this doesn't solve the multitude of serious problems. The expenditure cuts will rather create new problems due to the dissolution of state authority and of the social peace. The social expenditure have specific functions in the society and it would be probably dangerous to cut them without knowing how much and with what consequences. Romania is now

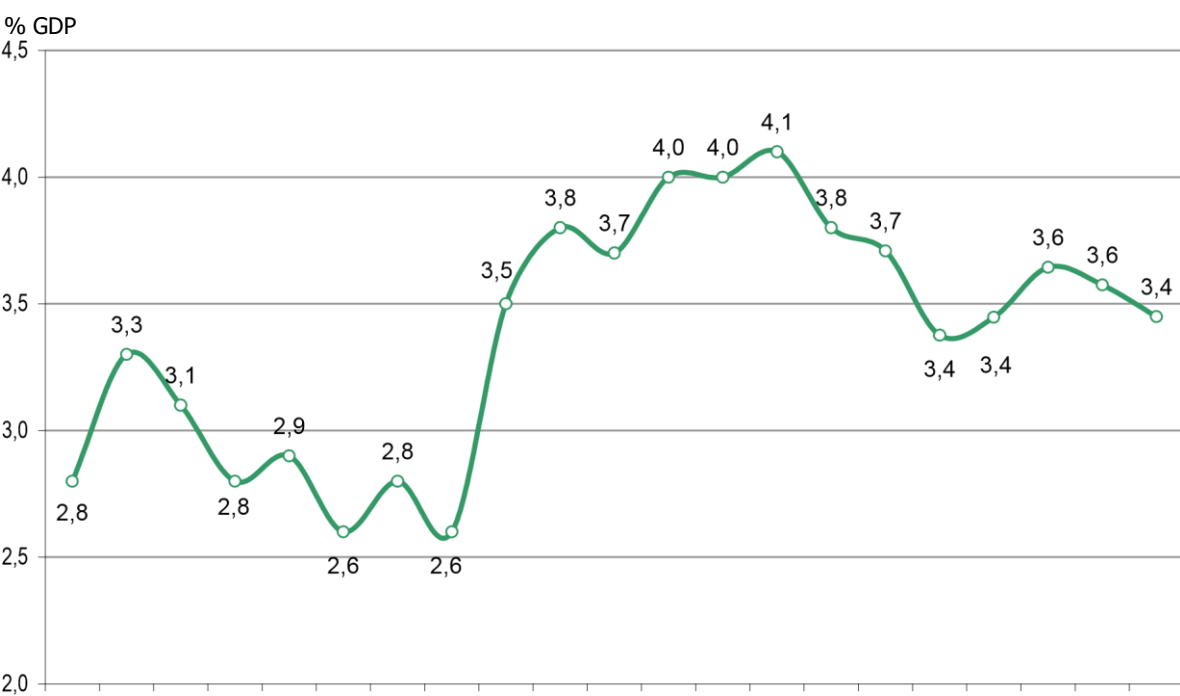
Romanian Academy – Institute for Quality of Life Research  
 at the periphery of Europe, but continuing the policy to cut the public social expenditure will throw us outside it.

**Chart 14 – Public expenditure for health care in Europe (average value for 2000-2008)**



Source: Eurostat

**Chart 15 – Public expenditure for health care in Romania**



If the origin of the crisis is in the foreign debt (preponderantly private), then the solution must not be sought in the budgetary policy, rather in the economic policy.

### **The economic policy: a point of intervention that has been ignored**

The current discussions commonly include the idea that there is no credible strategy to stimulate a significant and sustainable economic growth. The Romanian economy, source of welfare for the Romanian society, lost positions on the international competition, focusing on marginal areas with poor returns.

After 21 years we are paying the price of the deficit of active economic policy. Due to different reasons, all the governments of this period were characterized by market fetishism. The state must interfere as little as possible in the economy. It did the right thing: it privatized the economy; now it must let the economy to revive by itself, as part of a global economy.

The strategy of privatization caused, however, the destruction of the industrial capacities. It was not followed by the revival of most enterprises and by the significant contribution, profitable for the Romanian economy, of the foreign investors. We became rather late aware of the failure in agriculture which is dominated only by a chaotic policy of restitution of the old properties and by the lack of a policy supporting the restoration of the agriculture.

The “self-moving” economic growth didn’t have significant results. Continuing on this path we may only hope to advance dead slow by small, thus unsatisfactory, increases – fluctuating too – or to self-comfort with ephemeral increased on credit.

The domestic market fetishisation was stressed by the fetishisation of the global market. We were comforted by the illusion of the automatic positive effects of the globalization. It is increasingly obvious that the globalization of economy didn’t lead to a more economically balanced world, rather to the opposite (Stiglitz, 2003). The naïve hope in globalization was justified rather by the lack of a solid conception for the reorganization of the Romanian economy.

The small and medium enterprises didn’t score the expected effects. Their results were rather at the level of a minor economy.

The “active policies” focused more on programs of *requalification* of the labour force, correct by itself, but with disappointing effects under the conditions in which the job offer has been declining for the past two decades.

### **Illusions regarding the crisis**

Currently an illusion of the past two years takes shape: freed of the alleged burden of the budget, the economy will revive significantly by itself. Using the same diagnosis-metaphor, we may say

that our problem is that the *thin man is too thin and the fat man also is skinny*. The Romanian economy is *weakened*, but not mainly due to the “fat man”, rather due to its structural deficiencies and to improper economic policies.

### **What kind of budgetary policy would be needed?**

If we look from the perspective of the arguments brought so far, we reach a different conclusion: the budget, with both its components – revenues and expenditure, is not too large, rather too small. The correct option is to *balance the budget*, which may be done by reorienting the policy of collecting the resources to the budget and/or by reconsidering the distribution of the expenditure. The free room available to reduce the public deficit is very limited, however.

There are four sources of the budget deficit:

1. The collection mechanism. Legitimate sources of taxation / social contributions are chronically underused. Tax evasion and corruption go in tandem. Under the conditions of low wages, the appeal to morality can not overcome the implicit stimulation of the fiscal officials to obtain illegal personal incomes. On the other hand, the mere improvement of collection will not balance the budget over night.
2. Reconsidering the taxation system. The shift from the progressive direct taxation to the indirect, regressive taxation (VAT), plus the complete abandonment of the progressive taxation of the incomes obtained by the natural persons, seem to be a source of the current problem. The promise of the economic growth was illusory. The simplification of the taxation system was not accomplished either. On the contrary, the number of taxes and dues increased in order to compensate the loss of fiscal revenue. At the same time, the taxation by proportional quotas – „the single quota” – enhanced the inequality of incomes and stimulated particularly the consumption of the most affluent households (Voinea and Mihăescu, 2009).
3. Poor budget, unbalanced allocation of the resources. Vital areas are chronically underfinanced (health care, education and social protection); on the other hand programs which didn't bring any economic increase, didn't increase the standard of living of the population, apparently don't have priority, receive higher budgets and thus dissipate the funds.
4. Exploitation by groups of interests. The budget is a source for political-economic groups. The parasitic behaviour is a major source of the 2009 deficit: Romania had capital expenditure amounting to 4.4% of the GDP, almost as large as in 2008. Compared to the other European states, Romania had the highest expenditure for public investments from its own budget – 13.4%<sup>9</sup>. Despite this, by the end of 2009, the GDP had decreased by -7.2%.

The problem is that it is not the budget which suffocates the economy, rather that the *economy doesn't support sufficiently the budget* and that the existing resources are not used efficiently according to a clear list of priorities.

We would add three more illusions which block the opportunity for economic revival.

1. The illusion that a misbalanced economy, narrowed to marginal areas, with regions relying on parasitic mechanisms, may become prosperous by its own forces, closing in on the developed economies.

2. The illusion that any investment leads to economic growth. The first years of transition were characterized by economic expenditures which didn't result in reorganization, rather to the consolidation of the private wealth, which didn't transform into capital to be used by the national economy. The expenditure with investments rather increased the profit originating from other economies and maintained the political game.
3. The illusion that the sufferance caused by tightening the belt is followed by prosperity. By tightening the belt, the poor hopes to get out of poverty, but he doesn't; on the contrary, he becomes even poorer. The belt tightening strategy was reduced to the incoherent blaming of the social expenditure. The result is the degradation of the social capacities of the country.

Rethinking the support strategy for the economy is vital for getting out of the crisis, which presumes primarily to strengthen the strategic points of the economy. The welfare of the nation, including the consolidation of the role of the public system in supporting the economy and the consolidation of the complementary role of producing welfare, depend primarily on the performance of the Romanian economy, and much less on the performance of the world economy.

*The economic revival must become again a national goal, supported by a broad social consensus.*

## **Chapter 2. Crisis of the political system**

*The economy is the source of the crisis, but the solution is not in it*

The strategic variable of getting past the crisis lies with the politics. We need urgent economic, financial and budgetary decisions which only the political system can make. However, the very Romanian political system is blocked, being paralysed by conflicts which are hard to solve in a constructive manner. The political system itself is in crisis.

The mobilization of all resources by a joint effort to get passed the crisis seems to be impossible within the present context. The measures taken by the government over the past two years seem to render irreducible the social and political oppositions. The policy of hostility has replaced the policy of the dialogue and of building a wide social support for, possibly hard, measures to get passed the crisis. The most conclusive example is the ostentative and provoking manner in which the public expenditure has been cut with a severeness comparable to that of the countries confronted with a much more dramatic crisis Greece or Ireland. The contrary opinion is that the areas where cuts could have been done, or surpluses of revenues to the budget could have been obtained, are ignored.

The governance is blocked in options which proved to be unable to relaunch a sustainable development. Much of the expenditure from the budget is made in areas where there still are solid suspicions that they express the interests of political groups, rather than being the result of a transparent, democratic analysis of the priorities.

### **The governmental solution**

The last programmatic discourses clearly contained a strategy which was not there before. The governmental policy exceeds by far the goal of getting past the crisis. The central goal is to *promote reform in all spheres of the social and political life*. Several structural laws have been or are in process of being promoted. The election system and even the Constitution are to be changed.

Many people wonder whether the dramatization of the crisis was not used as an instrument to justify an ambitious program of changing the institutional system in Romania.

The forceful promotion of the project of reform fuels, nevertheless, the political conflict. The problem is no longer whether these changes are necessary or not, rather the fear that they will be introduced by force, ignoring other opinions.

The ambitious program of reform was developed concomitantly with a general blaming of all the institutions, politicians and dignitaries. Antagonizing everything that pertains to politics creates a space favourable to changes by force, but at a high cost: infringing the standard procedures for democratic change. The Parliament, as supreme representative body, got stuck and, until its possible reformation, can no longer provide the democratic framework to discuss and adopt solutions.

The political conflicts are placed beyond the level of the promoted *solutions* and the fight for the levers of power. They are placed at a deeper level: the *procedure* for the production and adoption of solutions. At the core of the political crisis don't lay the quarrels between the political actors, rather the very public process of analysis and making strategic decisions; the discussion about the *procedure* to make a decision is fuelled by deeper structures of thinking. The current political thinking relies on the *paradigm of the unique solution problems* (Zamfir, 1990).

### **A theoretical-historic lesson: the cycle of authority and the *paradigm of the unique solution problems***

The epistemology of the single-solutions problem prevailed during the two decades of transition: just one solution is good, the others are bad. There was no alternative to the program of reform, or any such formulation was systematically labelled as anti-reform. *The first solution which seemed satisfactory was automatically considered to be the only good solution*. There was a dominating blockage against exploring and evaluating the alternatives. Now, after 21 years, many of the ideas that have been presented as *reform* appear of amazing inconsistency, at least due to their simplistic character.

Epistemologically, the problems confronting the Romanian society are highly complex and have a high level of incertitude. Unavoidably, the community will opt for different solutions and *in a way everybody is entitled to believe this way*. Furthermore, what some people consider to be the right solution, may be a bad solution on the medium/long term. The belief that you are absolutely right, thus forcing the implementation of the own solution may prove to be a mere illusory hope.

The current government also uses the epistemology of the single-solution to problems in relation with the complex problems of the crisis. “Cutting” is the correct solution and the only solution. The alternatives, irrespective of their origin, are automatically bad. The clearest test of this deep structure of thought and decision-making is the practice of assuming the responsibility, which is a current exercise. The Parliament is a complex social system of thinking and decision-making and it also has the authority to represent the electorate. When the Government assumes responsibility, it actually replaces the democratic, social process of decision, by a decision taken by the Prime Minister. This option eliminates the social dialogue and the decision-making process resulting from the various points of view, as well as the democratic mechanisms of decision and correction. It also creates stiffness within the social process of knowledge. It is no accident that the laws adopted in this way have a precarious quality, which makes them less applicable and, similarly serious, they eliminate in principle the opportunity for a social-political consensus over the decisions that are taken.

We may thus understand the *solitariness* of all the leaders obsessed by the absolute truth of their judgement and by the feeling that they are not understood. This solitariness can be identified in all their discourses. The leader is decided to promote a reform of the entire social system. The population doesn’t understand the correctness of the reform strategy and is not willing to accept the unavoidable immediate troubles as price for the future benefits. The decrease of popularity is the price to be paid by those who are right and decided to promote it. The people will understand later.

### **Epistemology of the problem with single/multiple solutions (Zamfir, 1990)**

For many centuries, the human thinking relied on the paradigm of the problems with just one solution. Any problem has just one correct solution, the other ones being automatically discarded as being bad. The classical logic incorporates this way of thinking. Aristotle stated clearly this problem: *the truth is just one, the fake takes infinite forms*.

The paradigm of the problems with unique solution provides an explanation for many social conflicts: the conflict between those having the true solution and those who, from cognitive or personal reasons, don't accept the truth of the others and stubbornly support bad solutions. The *dissent*<sup>10</sup>, the differences of opinions, is thus caused by incompetence or ill intention.

Over the past two centuries, the thinking has incorporated another pattern of rationality: *the problems often have multiple solutions*. Any problem has bad solutions, of course, but it also has a lot of good solutions, in various degrees: from the optimal solution (the best under the given conditions) to the solution providing the lowest level of accomplishment. If we could make a classification, based on knowledge, on a continuum from the bad solutions to the optimal solution, we would then get to the paradigm of the solution with single solution: the optimal solution. The problem is, however, that under conditions of incertitude (deficit of knowledge) we can not determine with certitude the value of the various solutions.

*The theorem of equality of the solutions under conditions of incertitude*: under conditions of incertitude, the possible solutions seem equal to the decision-makers.

*The theorem of the dissent produced by the incertitude*: the preferences of the decision-makers are unavoidably different due to cognitive reasons (*cognitive dissent*). The projection about the preferences, expressed by the different interests stresses the dissent (*social dissent*) and aggravates the difficulty to build in a consensual manner.

The democracy applies only as a method to make a decision under conditions of plurality of interests, and also under cognitive conditions of incertitude. In science, the consensus is established by communication and often through the effect of the majority, and not through strictly cognitive procedures to decide on the truth. Communication increases the quantity and quality of the knowledge and produces better solutions, but rarely the best solution. The consensus, thus obtained, is always frail and it has to remain open, programmatically, for reviewing.

*The theorem of the relation between incertitude and the style of leadership*: the authoritative leadership relies on the paradigm of the one-solution problems; the democratic style relies on the paradigm of the multiple-solutions problems.

In the authoritarian style, the decision is made by the exercise of power.

In the democratic style, the decision is made by communication, by consensus, or by the mechanisms of the cognitive majority / majority of interests, which are principally open.



But, what if eventually the Leader was right and the population was wrong? The history so far shows no such cases. The consensus/dissent is an important factor of the success/failure of the taken decisions. A decision imposed with the means of authority generated unavoidably opposition and resistance to implementation. Furthermore, the solutions imposed with the means of authority get rigid, impermeable to feed-back, unable to be corrected. The solutions to the highly complex problems *are not given from the beginning*; rather they are *constructed* using a process of collective thinking. It is already established that, in the uncertainty that accompanies the highly complex problems, the collective thinking may produce clearly superior decisions than the individual thinking

History has shown that the great projects promoted in an authoritative manner have failed due to the resistance of the *cotton wad wall* or, worse, due to the destruction of the system they were supposed to pull out of crisis.

It may be odd to say that the implementation of the single-solution problems paradigm is the core cause of the chaos and of the rising social tensions and conflicts. This paradigm creates a space for the promotion of divergence of interests and of the generalized social suspicions.

The sustainable exit from the crisis can be done only by fostering democracy. The authoritarian solution for crisis has always lead to historical catastrophes. The problem, however, is: who is going to pay, and how much, for the great errors of the history?

There is an obvious conclusion: the core nature of the current crisis is not economic; rather, it resides in the *incapacity of the current political configuration to produce a process of collective thinking, democratic in its nature, which to yield credible solutions supported by a broad consensus, implemented flexibly, open to adjustments and revisions. The political jamming is the true cause of the Romanian crisis. If we do not acknowledge the seriousness of the crisis rampaging the political system, there is no way we can get past the crisis confronting Romania.*

### **How to come clear from the political jamming**

The political system can take the decisions that will clear the crisis. But how is this possible?

Within the current context, the key variable is not *what decisions are made*, rather *how the decisions are made*. The central problem is the *political procedure*. The strategic solution to solve the current crisis is *to cut short from the cycle of authority*, transition from the *paradigm of the single-solution problems* to the *paradigm of the multiple-solution problems*, to the option for *political cooperation to identify widely accepted and supported measures*.

There are several possible solutions, with various degrees of probability/improbability:

- x Maintaining the current government, eroded and jammed, with the possible escalation of the political conflict and with social unrest whose consequences are hard to estimate;
- x Support a new government, with the same program, which will yield the same result, sooner or later;

- x The current government, or another one having the same political profile, must change the governing strategy;
- x Accomplishment of a broad consensus of the political parties to support a new government of crisis;
- x A technocrat government with the same goals, operating on the basis of a minimal consensus, which to run the society and to organise elections;
- x A new configuration of the Parliament to be achieved by the reorientation of MP groups, yielding a new government with a new program.

Is the solution of a technocrat government possible?

We will go back in history. Romania was confronted by several crises over the past 21 years. The past crises finished reasonably, in political terms. The political crisis of 1991, which expressed the start of a severe economic crisis, was solved by a technocrat government lead by Theodor Stolojan, with a limited political mandate, followed by a politically balanced government which resulted from the 1992 elections. The political crisis of 1997-99 was solved by the fall of the government which was jammed by crisis and the instauration of a government with a limited political mandate lead by a technocrat, Mugur Isărescu, followed by elections in 2000, which have changed the political configuration.

The advantage of the technocrat government solution was that the due elections were close. This is not the case for the present situation, however. The elections are far away. The technocrat government might work reasonably provided it has the mandate to organise early elections or if it had space to change the current parliamentary configuration with all the resulting consequences.

The position of the presidential institution, with almost 4 years of mandate to go, may become an essential factor for solving the crisis. *The immediate solution, which would unjam the whole system lies with the President: shifting from the position of player-President to the position of refereePresident, constructor of solidarity and of an anti-crisis political consensus.*

The solution to the crisis presumes the mobilization of the resources by the whole community within a coherent endeavour. The exploration of alternatives and their transparent evaluation is the basis for an anti-crisis consensus. In moments of crisis, the cooperation between the power and the opposition becomes an essential condition for the success of the anti-crisis policy. Such a solution is most certainly possible, but the responsibility lies with the political system.

### **Chapter 3: the social state**

Given the low level of information from the political debates on the subject of the social state, we undertake to show synthetically the functions of the social state in the modern world and the social contexts which have shaped the changes of profile of the social state.

### **Appearance and functions of the social state**

The social state is a product of the modern society. This is not an ideological vision, rather a social reality. The modern state has consolidated a large package of social functions as instrument of the social-economic development (Zamfir and Zamfir, 1995). Irrespective of the political orientations, the governments from the developed states didn't change the basic structures of the social state.

In its current form, the social state is the result of a historical process which has started at the end of the 19<sup>th</sup> century and which evolved, along several stages, for over one century (Cace, 2004).

There are several functions which have shaped the profile of the social state.

#### **The function to coagulate the new structures of the national states and to promote the national cohesion**

The 19<sup>th</sup> century, also called the century of the nations, has been dominated by the establishment of the modern national states. The German Chancellor, Otto von Bismark<sup>11</sup>, has formulated clearly the function of the undertaken reform: a higher national cohesion. The new system of social insurances was due to give the citizens of the new German state the feeling of belonging to the national community and of the national sovereignty consolidation. In the United Kingdom, the conservative Prime Minister Benjamin Disraeli<sup>12</sup> has introduced several social reforms as part of the *One Nation* program. In France, Jules Ferry as prime Minister and Jules Grevy as President of the Republic have initiated the first universal public, free and compulsory system of education, with the view to educate the new generations in the spirit of the republican and lay values of the third French Republic.

*The sovereignty of the new states is conditioned by their capacity to collect taxes and dues. The new systems of social insurances and universal public services provided social welfare to the citizen, motivating it to pay taxes and dues.*

#### **The function to loosen the social tensions caused by capitalism in its early stages**

In the 19<sup>th</sup> century, the capitalist society, engaged in a rapid process of urbanization and industrialization, produced many social problems. The increased numbers of poor people, particularly the industrial workers (the proletarians), experienced a process of political radicalization, which materialized in violent social unrest, revolts and revolutions throughout the century.

The precarious standard of living and the tough methods of exploiting the labour were enhanced by the incertitude of the job, by the risk of getting sick and, finally, by what will happen when the workers are too old to work.

The inexistence of mechanisms which to balance the power relation capital/labour, was one of the major factors for the social break. The owners of factories had absolute power regarding the work relations and the workers had no possibility to influence the decisions affecting their work and life.

The lack of power balance generated social misbalance, which burst in disruptive forms. For instance, on the first of May, 1877, workers were shot because they were demanding a 10 hours limit to the working day.

The *social rights* were encoded by political and social pressure: the 10 hours, and then the 8 hours day of work, the vacation, the sick leave, banning child work. The labour unions have been established legally and their struggle was acknowledged. Once the social conflict has been institutionalized, the working class had available legal forms to display its interests. From this point of view, the social state appeared, for some authors, as a result of the claims of large groups of people, who have organised in order to support their interests within the political competition (Miliband, 1961, Gough, 1979).

### **The function to meet collective needs and to absorb the social risks**

During the final decades of the 19<sup>th</sup> century, in response to the aggravation of the serious social problems, a public system which to absorb the individual and collective risks has been prefigured. By its social policies, *the state became a major supplier of welfare through a deliberate action of redistribution of the resources among its citizens*. In other words, the social policies represent the change of an unsatisfactory and unjust allocation of the resources.

The *redistribution on the vertical* aims to alleviate the material inequalities of income and wealth, in order to provide for equal opportunity, particularly regarding the access to services such as health care and education. This form of redistribution relies on ethic and moral motivations that pertain to social justice and to a fair redistribution of the resources. Additional international data converge towards the idea that the material inequality is the cause for other social problems which reduce the life expectancy and the quality of life (Wilkinson and Pickett, 2010).

The *redistribution on the horizontal* aims the situations of market failure. There are situations when the people have a natural disposition not to spend money for future needs. The universal, free and compulsory education and the mandatory contributions to social insurances are classical examples in this direction. Who would pay, willingly after the age of 16, month by month, for the education of the children, or who would save every month for the pension? By state intervention, the incomes of the people are redistributed along one's lifetime, levying during the active part of the life and providing at old age, sickness or unemployment.

Another way to perceive the social state is by starting from the *social risks*. The social state appears thus as an answer to the *social requirements* generated by these risks: health care, bettering one's education, regulating the labour market and social security (Titmuss, 1976). In the modern societies, most individual and collective risks are no longer natural (calamities, pests, bad harvests); rather they derive from human action (change of the climate, wars, financial crises). From this point of view we are living in a society of the risk, in which man is confronted with economic and social risks produced by himself (Beck, 1992).

### **The function to provide an alternative to the revolutionary/communist program**

Spontaneous revolts, revolutions, radical political unrest, they have all become an increasing threat to the capitalist order. The socialist movement comprehended, particularly during the moments of crisis produced by the world wars, large segments of the population. The idea of a revolution for the radical removal of the capitalist order and the instauration of another form of societal organization which to solve the acute social problems, was not the mental product of Marx, himself a product of that age.

The social state offered an alternative to the revolutionary program of the 19<sup>th</sup> century and to the Soviet socialist system in the 20<sup>th</sup> century which had expanded after the Second World War. The expansion of the social state sphere probably was the determining factor for the decreasing influence of the communist movement.

### **The world wars**

Paradoxically, the wars have been an important factor for the promotion of the social state. The two world wars have created a context which stressed the need for social intervention by the state. The wars have destroyed the economies aggravating extremely the social problems. New functions of the state were highlighted during the wars: mobilization of the population for fight, providing additional social protection to the population impoverished by the war. The state had to assume the responsibility to heal the wounds caused by the war: the loss of family supporter, handicap caused by war, reconstruction of the country.

In response to the challenges of the wars, the states proved their capacity to organise efficiently the production for war, to organise the large military system and to ensure the elementary conditions of life for the population during the hard conditions of the war. Why couldn't it also plan a national program to promote social welfare, why couldn't it also be able to organise schools and hospitals? On the other hand, the refusal to meet some social and political claims became impossible after the sufferance endured during the war.

### **The Great Crisis 1929-1933**

The social-economic reconstruction was rapidly confronted with a new economic crisis in 1929-33, which some specialists characterised as the failure of the classical liberalism. Different directions to solve the new economic and social crisis emerged on this opportunity.

In Russia there was a communist pattern based on the nationalization of the economy and, complementary on the expansion of the social protection. The new social construction was accomplished through harsh, dictatorial mechanisms. The socialist states which resulted after Europe was divided after the Second World War have combined the Soviet pattern with the inherited functions of the social state. The social state in these countries is structurally similar with the one from the capitalist countries, with some exceptions.

Another direction was the fascist dictatorship chosen by Germany, Italy and Spain. The state has taken over the functions of the economy for war, but it also ensured some social functions imposed by the mobilization for war, in parallel with the repression of the domestic opposition.

Other European countries had chosen a democracy with more parties, the introduction of a system of negotiation / partnership in the labour relations and, particularly, the amplification of the social protection function and of the quasi-universal social functions. The American solution was of the same kind: intervention of the state to support the economy and enhanced social functions of the state.

### **Effects of the economic boom**

Using the opportunities generated by the economic boom of the 50s-60s, the social profile of the state has consolidated, taking the name of *welfare state*. The state has assumed important functions to contribute to the production of welfare and to its fair distribution. The fast economic growth rendered acceptable and desirable a particular degree of promoting the social equity. Sweden was a model for the welfare state favoured, among other, by its neutral position during the Second World War. The same effect, of *larger social state*, was produced by the post-war economic revival in the socialist countries too.

### **Social reaction to the oil crisis and to the increasing international competition**

During the mid 70s, the oil crisis was a huge shock for all economies, on the background of increasing international economic competition. The western countries needed an economic mobilization, which was done under less stressing conditions due to the social state. The welfare state had promoted a more equitable society with a low level of social conflicts.

The higher economic pressure has, unavoidably, brought forward again the discussions on the role of the state. The direction that was decided was to not to decrease the social functions of the states, rather to increase the efficiency of the public expenditure, to promote the technical innovation, to reorganise production, to increase the motivation and effort to work, to promote partnership as principle of the labour relations and to moderate the labour unions' claims. There was no significant reduction of the standard of living or of the social functions of the state.

The socialist countries have been affected more seriously by the economic crisis of the 80s. It was the moment when the hopes of the socialist economies vanished due to their structural incapacity of flexible reaction to the new challenges. Although they were less affected by the oil crisis, the socialist economies have lost the race of entering a new stage of better quality.

In the mid 70s, and stronger in the 80s, the socialist countries had to lower the standard of life of the population. In Romania, the effects of the economic crisis have been aggravated by the simplistic dictatorial policy of Ceaușescu. The standard of living decreased not very much, but it lasted for about 15 years: unacknowledged unemployment (about 4.5%), some wage cuts, but the most important option was to reduce consumption by the scarcity of the products (Zamfir, 1999).

### **Transition and the functions of the social state**

The reorganisation involved by the process of transition incurred unavoidably a social cost. The state had to assume a higher role of compensating at least partially this cost. An idea took shape, that the *transition should be accompanied by a higher social protection*.

The European countries in transition increased their budgetary expenditure for social protection. Romania too, increased the public social expenditure, but less than the other former communist states (Table 2). Probably that the anti-communist political pressure, plus other ideological misunderstandings have fuelled radical, anti-social state options, even from the beginning. The disappointing economic results of the transition in Romania have increased the social costs: the *unavoidable social costs* were supplemented by the *avoidable costs* of the transition. The data show that although in Romania the social costs of transition were among the highest, the effort for social protection was the lowest across Europe (Zamfir et al., 2010).

### **The social state – product of the economic prosperity or of the crises?**

As we have seen, the *economy* has a complex effect on the social state:

- x *Direct effect*: during the periods of crisis, the economic difficulties push towards reducing the social state, but they stress the need for state intervention to support the economic revival. During the stages of prosperity, the economy offers additional resources for the development of the social functions of the state.
- x *Indirect effect*: generating and amplifying the social rises, it acts towards increasing the social functions of the state.

*Launching programs for social-economic development/change* is a major factor for the amplification of the role of the state, including its social component.

At the end of the 19<sup>th</sup> century and in the 20<sup>th</sup> century, Romania, underdeveloped country, displayed an outstanding synchronization of the state configuration with the developed western regions, motivated by the effort for modernization. The hopes of the 1989 Revolution and the pressures to compensate the social costs of the transition have acted in the same direction of increasing the role of the social state. The current governance of Romania has chosen as reaction to the crisis, much tougher methods than the ones adopted even by the regime of Ceausescu during a somehow similar situation of crisis.

In Romania, the economic crisis has updated the pressure for the social compensation of these costs. The current governance adopted, however, an opposite social policy, single in Europe: massive reduction of the social functions of the state.

The *social crises* (the crisis of the harsh capitalism in the 19<sup>th</sup> century, the world wars, the great economic crisis of 1929-33) were the drive which increased the social functions of the state. We don't see why under the conditions of the current economic and social crisis of Romania they must have a different effect.



**Table 2 Social public spending during the early years of transition**

	1989	1990	1991	1992	1993
Albania	13.4	15.8	28.9		
Bulgaria	19.9	20.6	24.7	27.0	24.4
Czechia	22.2	22.9	22.5	26.3	
Slovakia	24.4	25.5	27.3	31.7	28.6
Hungary	24.5	26.6	31.5	33.2	
Romania	14.2	16.7	16.5	16.4	14.7

Source: (Zamfir et al., 1994)

### The first forms of socializing the loss

Probably that one of the first forms of social insurance was against the business risk.

A business presumed very large investments, which often exceed the resources of the family. How to cope with such a risk? The individual accumulation was not enough.

We have found such an example in the old Greece. Suppose that 10 ships loaded with goods go out to trade at sea. It is not unusual to lose at least one ship. Someone had a revolutionary idea: socializing the risk. Share the risk among the 10 ship owners. If one doesn't return, the other 9 ship owners, prosperous due to the return of their ships, commit to give a share of their profit to the ship owner whose ship was lost at sea. The loss was therefore compensated by those who made a profit, being thus socialised.

A strong hypothesis emerges from this analysis: *the social state is the direct product of the social crises and of the opportunities provided by the economy. The economic crisis, indirectly, acts towards the same direction.*

### The social state: the modern mechanism managing the social risks

The current discussions highlight the attack against a component of the social state: *social assistance*. Actually, the social assistance in Romania is a consistently underfinanced component,



a small part of the system of social protection. If we add all the expenditure that can be included strictly in the chapter of social assistance, it will probably not exceed 1% of the GDP.

The presentation of the social state as “assistential state” is a distorted image, with socially destructive political effects.

There are five main components of the social state / social policies:

1. a package of universal public social services: health care, education, social assistance;
2. a system of insurances (social, unemployment, health care);
3. collective universal social financial support (families with children, people with disabilities);
4. social support focused on the people in need, by means testing (minimal guaranteed income); this is the support for the “poor ones” often addressed with the term of social assistance;
5. dwellings and support for dwelling.

In Romania, similarly to all the developed countries, the core of the social state consists of the basic social services plus the public system of social insurances in all its forms. Taking into consideration the massive proportion of the social insurances within the package of financial social transfers towards the population, the social state is more an insuring state and less an assistential state.

From a more general perspective, the social state can be regarded even as a *large insuring system, individual and collective*, in response to the *multiple risk problems*.

### **Individual risks / individual insurances**

*How to cope with the risk* has always been a fundamental problem of the man/collectivity. Besides the food for today it is important to have food for tomorrow too, and there is a continuous risk regarding this matter. There are individual risks: loss/decrease of the economic resources (disease, ageing, death, loss of property, of the framework for economic activity, such as the land in agriculture), theft and aggression. There also are collective risks, such as natural catastrophes, economic crises, wars, epidemics.

The pre-industrial societies have developed a natural structure to cope with the individual risks: the enlarged family and land property. The household provided the protection mechanisms for its members: it raised the children, took care of the sick and of the old people. The property on land was the big insurance of the individual. Social protection was not comprehensive, however. The chronic poor with no resources (the beggars, the vagrants) have always been excluded from the traditional system of protection.

Maybe the oldest procedure to cope with the individual risks was the individual accumulation of resources: properties and money. The parable of the 7 fat cows and 7 thin cows was the wisdom of accumulation to cope with the unavoidable/possible/probable period of the 7 thin cows.

### **Socialization of the risks: the public insurances system**

The capitalist-industrialized modernization crumbled the small communities with their systems of social protection. In the nuclear family, the people were increasingly disarmed in front of the risks. Three basic risks become dramatic:

- x *Risk of old age*: the duration of life is a fundamental human value, but a major economic risk. The nuclear family depended fundamentally on the wage system, the support function of the family decreasing until disappearance. The capacity of financial accumulation to provide for the old age was far from satisfactory. The higher life expectancy dramatized the financial insurance after leaving the active life. Living more became a vulnerability;
- x *Risk of not having / preserving a job*: unemployment, disease, reorganisation / shutdown of the institution;
- x *Risk of getting sick*: which presumes ever higher medical costs.

You can cope with the risks through individual measures. First, through the accumulation of financial resources “just in case”. But the individual measures to cope with the risks run a fundamental problem: *the risks are often much higher than the individual accumulation*. The “mishap” can exceed by far the accumulated individual resources. The individual defence is often not enough.

The social distribution of the risks is unequal: some people get sick, other don't: some live longer, other little; some loose all their economic resources, other are prosperous. A new strategy has been developed in response to this problem: *socialization of the risk and the public insurance system*; a system of social insurances was designed, focusing on pensions, plus the unemployment and health care insurances, universal or contributive, completed by vacations and retirement due to medical reasons.

The public system of social insurances is a collective way to cope with the “risk” of living longer, of getting sick, of losing the job. The future is always expected with fear, but the insurance system provides a basis for optimism and confidence.

But any private insurance system is confronted with two problems. First, it needs a *referee* which to make sure that the agreement is observed. This is the function of the law and of the state as ultimate guarantee for all agreements. However, the success of the system depends on the *mass of participants*: the more people join the system, the higher will be the compensations and the lower will be the contributions. A major function of the state has been developed in response to this problem: establishment of the compulsory public insurance systems.

The appearance of the state created a new opportunity for the insurance systems: they have been taken over by the public system and guaranteed by the state authority through law and through a public system of operation.

The basic principle of this role of the state is the *socialization of risk*. The individual strategies can not cope efficiently with the risks of the individuals and their families. The general mechanism for collective action against risks is the system of insurances with different forms: the people exposed to the particular risk contribute, while the people in need benefit of other people's contributions.

The whole system relies on the *principle of social solidarity*. There is a collective solidarity in front of the individual and collective risks. The solidarity of those who "don't lose" with those who "lose". The social solidarity is national first of all: the affiliation to a collectivity ensures the living conditions for all its members.

### **Collective risks / collective insurances**

Not just the individuals, but the collectivities too are confronted with risks. There are accidental risks: wars, dictatorial regimes, natural catastrophes.

The insurance systems guarantee the *continuity of the living conditions / compensation for the individual and collective losses*, despite the variety of situations.

A quality society is the framework for the individual and collective life. One way or another, the collective welfare is a central value stipulated by Constitutions all over Europe.

The collective risks/needs have another mechanism of coping with. The collection of resources is done universally through taxes and dues. The contributions are done function of the possibilities. All such contributions are, eventually, progressive: who earns more, contributes more. These taxes and dues contribute to the formation of the *national budget* which feeds the institutional systems of collective interest: education, science, public health, administration, domestic and foreign security, justice. The state organises the social services of public interest. The benefit is granted either collectively, or individually, on the basis of citizenship or universal right.

A basic problem of the modern society is the provision of universal services. The education is the paradigmatic case. The market polarizes the education function of the individual economic resources, not function of the development capacities. The market doesn't have sufficient mechanisms of investments in universal education. The state has assumed this function. The free education is some kind of redistribution of the resources needed for education, to the interest of community development.

The universal access to education and to health care services represents *social rights*. Their limitation means social exclusion and degradation of the human condition and of the entire collectivity.

All the forms of public social insurances, individual or collective, interrelate, forming a coherent package of social protection. The coherence of the system is ensured by the state and, ultimately, by the state budget, as collective resource which guarantees all rights.

The accomplishment of all the collective necessities relies on the principle of the *collective solidarity* which adds to the *inter-individual solidarity*: the duties and rights of all the citizens, members of a collectivity.

At the core of the solidarity lies the *inter-generation solidarity*. The current generation ensures the living conditions for the future generations. In turn, the future generations commit to ensure the living conditions of the generations which supported them. This is an *inter-generation social contract*. Each generation undertakes to participate in the collective system, thus ensuring its continuity and its capacity to cope with the collective risks.

The whole public system is a vast *collective insurance system*, which completes the individual insurances. All the systems of individual and collective insurances, relying on different forms of contribution, are *redistributive* in a broader meaning. In front of the risks, the redistribution of the accumulated resources is always done according to the need, in relation either with the contribution, or with a universal collective or citizenship right based on a collective contribution. The redistributive function of the state strengthens during the periods of crisis.

The state has always been a huge mechanism which redistributes the resources produced by the community. While the traditional resources were redistributing the resources predominantly *upwards*, the modern state displays a mechanism of redistribution *on the horizontal* – the management of the social risks which the individuals or the market can not cope with – and *on the vertical* – alleviating the inequalities and meet the collective needs, irrespective of the individual resources.

In conclusion, **just like the market is the imperfect, but most efficient economic mechanism, the state too, is the imperfect, yet most efficient, mechanism to manage the social risks and to meet the collective needs.**

## **Chapter 4. Ideology of the minimal state or the market fundamentalism**

A new ideological orientation appeared in response to the economic crisis of the 70s: the *minimal state* launched in the United Kingdom by Margaret Thatcher and in the USA by Ronald Reagan. The ideology was response of the right to the restoration of the classical liberalism as neoliberalism (Harvey, 2005). However, it was not generally accepted by the liberal parties, rather by the conservative parties.

The basic principle of the new ideology was the *market fundamentalism*: the market has the inner resources for a continuous economic growth and it solves all the social problems much better than the state does. The intervention of the state hinders the economic growth. Furthermore, the state also is a poor distributor of the welfare. All the public social services must be gradually translocated towards the logic of the market. The economic actor must be allowed to choose; the state must not

choose on its behalf. Welfare will be provided much better: the rational consumer will choose and the free market, dominated by competition, will provide the best and cheapest services.

The consequence of this vision was the drastic decrease of the state dimensions: **small state**. Cleaning the liberalism of its social components, the neoliberalism shocked not just by its clearly *anti-social state* principles, but also by its anti-state principles: *the state is not the solution to the problems, the state is the problem*<sup>13</sup>. The state was the cause of the economic crisis. Therefore, the solution is not more state, but less state. A program to “*narrow the borders of the state*”<sup>14</sup> has been announced. Freed from the intervention of an excessive state, the economy will reanimate. The social functions of the state were to be drastically reduced. The segment of population which depended on the system of social assistance will be motivated to act in the economy.

### **Has the neoliberal ideological program of the 80s been accomplished?**

After 8 years of Thatcher governance the result was surprising. The English state didn't become smaller. Despite the governing program launched by Thatcher, the data show that the public social expenditure didn't decrease in the United Kingdom (Jenkins, 2007). We may draw a conclusion: the logic of the British society withstood the Thatcher program. The same has happened with the Regan program in the USA.

The European Union has developed another approach during the recent decades, completing the paradigm of the *European economy* with the *social Europe*. This new orientation is supported by all the European parties beyond their ideological options. Juridically, all the European states committed, as early as in 1965, to observe the stipulations of the *European Social Chart*, document which joins the principles of social cohesion within each society.

Solutions have been sought for the current crisis too. Packages of pragmatic measures have been adopted, but the role of the state or of its social functions have not been approached for revision. Even the European countries seriously confronted by the financial crisis and which have taken severe measures, didn't affect substantially the social functions of the state. The anti-crisis programs of most European states regard the social expenditure as social investments meant to solve the social blockage, not just mere expenditure of social assistance.

### **The Romanian ideology of the minimal state: basic principles**

Romania developed a unique ideology in Europe, with a particular vision, both as scope and as extremely sharp statements. The basic principles of the social state for the last 100 years are rejected. Romania is the only country which assumed publicly, after 30 years, the theme of the Thatcher ideology, pushed towards its extremes.

1. *The social state is parasitic*. It doesn't have a supportive function for the economy; it rather *sits on the back* of the economy. The state intervenes and takes part of the resources of the economic actors which it redistributes to the population depending on social assistance. The intervention of the state this hinders the normal functioning of the economy stalling its growth.

This formulation yield the natural question: why should anybody sit on the back of the economy? The market economy itself has efficient mechanisms of operation which allow its continuous growth. The transfer of the basic social services from the public system towards the market system is the direction of reform.

2. *The market economy provides opportunities for all the members of the collectivity, stimulating them to be active.* There are possibilities of economic activity, but the problem is to motivate the individuals to join the economic system.

3. *The market meets the needs of the population in an optimal manner.* The individuals, using their financial resources, are rational buyers, distributing optimally their financial resources. The intervention of the state distorts the rationality of the individual behaviour to meet the individual requirements. The market economy together with the liberal buyers achieves the optimal level of the quality of life.

According to the ideology of the minimal state, or market fundamentalism, the social state has several adverse effects on the operation of the economy and market.

*Effect 1: impoverishing the active actors.* The only producer of financial resources – the economic actor – gets weaker because it is impoverished by the taxation system, by the social dues and contributions and it gets even weaker due to the inefficient social redistribution done by the state.

*Effect 2: economic demotivation by developing the dependence on the state.* The intervention of the state splits the society in two: the active economic actors which use own resources through the market, and those who meet their necessities through the state and who, thus, are not motivated to produce themselves. A large mass of people add to the fat man, parasite on the back of the others. The President evaluates that there are about 13.9<sup>15</sup> million people assisted by the state. The social state becomes an *assistentialist state*: it assist more than half, of the population.

*Effect 3: cancerous growth of he state,* which exploits the producer by taxes and contributions and impoverishes it by bad quality social services, possibly expensive due to their inefficiency.

The neoliberal diagnosis of the social state has at least tow inevitable consequences.

*The system of social insurances glides into the system of social assistance.* By this, the social insurances are labelled as parasitic. This is an inherited evil which has to be removed in the future. The gliding directions of the social state, all its constituents included, towards the component of social assistance are already prefigured; this is done by encouraging the privatization of the basic social services, complementary with a fast depreciation of the public services.

*A new social cleavage.* Although it was not explicitly formulated, it is unavoidable – the society breaks. On the one hand, the few beneficiaries of higher profits of wages and the beneficiaries of corruption and, on the other hand, the mass of employees with low wages, the unemployed, the occupationally marginalise people, the families with 2 or more children, the old people with pensions who are increasingly pushed towards the assistential system of the guaranteed minimal income. This factual cleavage is supplemented by a cleavage of image: between the employees of the private system and those of the public system („budgetary”, „state-dependent”).

### **Program of the gradual dismantling of the social state**

*The public system of pensions* is the priority target of the program to dismantle the social state, which is under attack from multiple directions. A campaign to resize the budget of social insurances has been started on the grounds that it is in crisis.

The 15% reduction of the pensions was prevented by an energetic public protest. There was an idea to tax all the pensions. Medical contributions have been introduced, nevertheless, for the pensions higher than 740 lei. The recalculation of pensions is the first step into this direction. The forecast is that this will bring an economy of several billion euros. Complex problems of legality, plus the public resistance will make uncertain the implementation of the program to recalculate the old pensions, but it might be introduced in the future.

The policy, arguable from the beginning under the difficult conditions of the Romanian society, to replace gradually the system of the collective public insurances by individual insurances with private administration (Second Pillar) will be the main instrument used to marginalise the public system of social insurances. It is difficult to interpret otherwise the fact that, under the declared conditions of crisis of the budget for insurances, the World Bank introduced a new condition: increased contributions for the Second Pillar and decreased contributions to the First Pillar.

The Second Pillar will gradually become dominant – the contribution of the employees is capitalised and at pension the employee will benefit exclusively of his/her individual insurance – will contribute substantially to the polarization of the pensions. Cut from the responsibility of the state and from the inter-generation solidarity, the pensioners of the Second Pillar will be confronted with the risk of economic fluctuations and of embezzlement of funds, being exposed to the risk of living “too much”.

*The public system of health care insurances* also is targeted by a policy of marginalization: very low wages, low investments which are distributed in a non-transparent manner, lower funding of the medicines, shutdown of hospitals on the basis of arguable reasons.

The universal health care system, poor and completed by formal and informal individual contributions, has been replaced by the system of health care insurances and by the famous “copayment”. The fact that this reform too was insufficiently thought and unprotected from numerous distortions by bureaucracy and corruption shows that the process of degradation of the system is running at high pace. The health insurance system excludes the people who don't



contribute (increasing because of the low employment rates), providing only emergency medical assistance. We will have to worry about the impact of reducing the employment (this of the health insurances) on the future of the population's health state. The polarization effect on the health care services is increasingly obvious, although the system still is rather developed because of the late effects of the socialist policy for full employment of the labour force. The degradation of the health care system will be an additional source of poverty under the current conditions, as well as a source of exclusion from health care services. A parallel private system of medical assistance, fully paid individually, has developed, and a system for private health insurances is being currently promoted. We do not explore sufficiently the impact of this process on the public health care system.

*The education also moves along the same path.* Private schools appeared at all levels. The number of seats in state-owned universities seems to decrease, being gradually replaced by the tax system. The erosion of the funds for education causes its deterioration aggravating the risk for a higher quality gap between the Romanian and western systems. The introduction of the public system of financing by school pupil/student and its generalization in the private system will cause a dramatic polarization of the education. There will be semi-private schools, with public/private financing, which can be of good quality, and schools receiving only public funds which will inevitably become of poor quality and intended for the poor.

*The system ensuring against the loss of wage (unemployment aid) suffered similar changes.* Initially connected to the wage that has been lost and thus providing a minimal continuation of the standard of living during the period of transition to another job, the unemployment aid was cut severely during the early 2000s, being limited to a low level. Given the incapacity of our economy to provide jobs, as well as the capacity for entrepreneurship, the worry that the system of social protection encourages "non-working" is odd.

The general direction of the social services is to abandon the universal services in favour of the means-testing services. The program agreed with the World Bank as part of the international financial assistance for 2009-2011 stipulates that the only form of social service to receive more funds is the minimal guaranteed income.

*The depreciation of the whole public system by a consistent underfinancing and by the continuous attack to its credibility actually is a strategy to promote the project of the extreme minimal state.*

This ideology is considered to be a development of the liberalism, but obviously radically different from the one promoted by the past Romanian liberalism (Rădulescu-Zoner, 2000). Hence, we consider that the suitable term could be the *ideology of the late Romanian extreme minimal state*. We added the term *extreme* in a neutral meaning, not negative: the idea is that the ideology of the minimal state is pushed to the limit of its logic. *Late*, because it resumes the themes formulated 3-4 decades ago.



**The point of view of a liberal**

The main governing political party after 2008, the Democratic Liberal Party, selflegitimizes as the main promoter of the authentic Romanian liberalism, unlike the National Liberal Party which, promotes basic social measures (increase of pensions and of the wages for the public employees in 2007-2008), and collaborates in the Parliament with the Social Democrat Party, being thus accused to go astray from the liberal values.

Reverting to history, there is a new perspective on the connection of the democrat-liberals with the Romanian liberalism. The middle class which brings the prosperity of the western countries lacks from the liberal Romania of the past century. Romania didn't have the bourgeois class which creates economic values, as it existed in the Western Europe, which was supposed to become the middle class in Romania. The Romanian liberals represented, upon the 19<sup>th</sup> century establishment of the National Liberal Party, the interests of the forming bourgeoisie (bankers, traders, industrial entrepreneurs, craftsmen) and of the intellectuals (lawyers, doctors, functionaries in administration, students, teachers, jurists). After the advent of the foreign prince to the throne of Romania and after the adoption of the 1866 Constitution, the liberals, the governing party, started wide measures to modernize and industrialize Romania, constructing the modern Romanian state.

Thus, the Romanian liberalism represents rather different social groups, both owners and entrepreneurs (about 1% of the population) and a wide majority of public employees (in administration, education, health care, culture etc.)

We may thus say that the Romanian liberalism is by its essence tied to the existence of a strong state. The political option to dismantle the social state is deeply anti-liberal, from the view point of the inter-war and current European liberalism.

Otherwise, the fact that the liberalism promoted by the National Liberal Party doesn't go astray from the values of the social state has also been mentioned by NPL president: "The liberal state is not the opposite of the social state. The liberal state is not a state which derogates from its public duties. It is not a state which resigns from its great constitutional and historical duties"<sup>16</sup>.

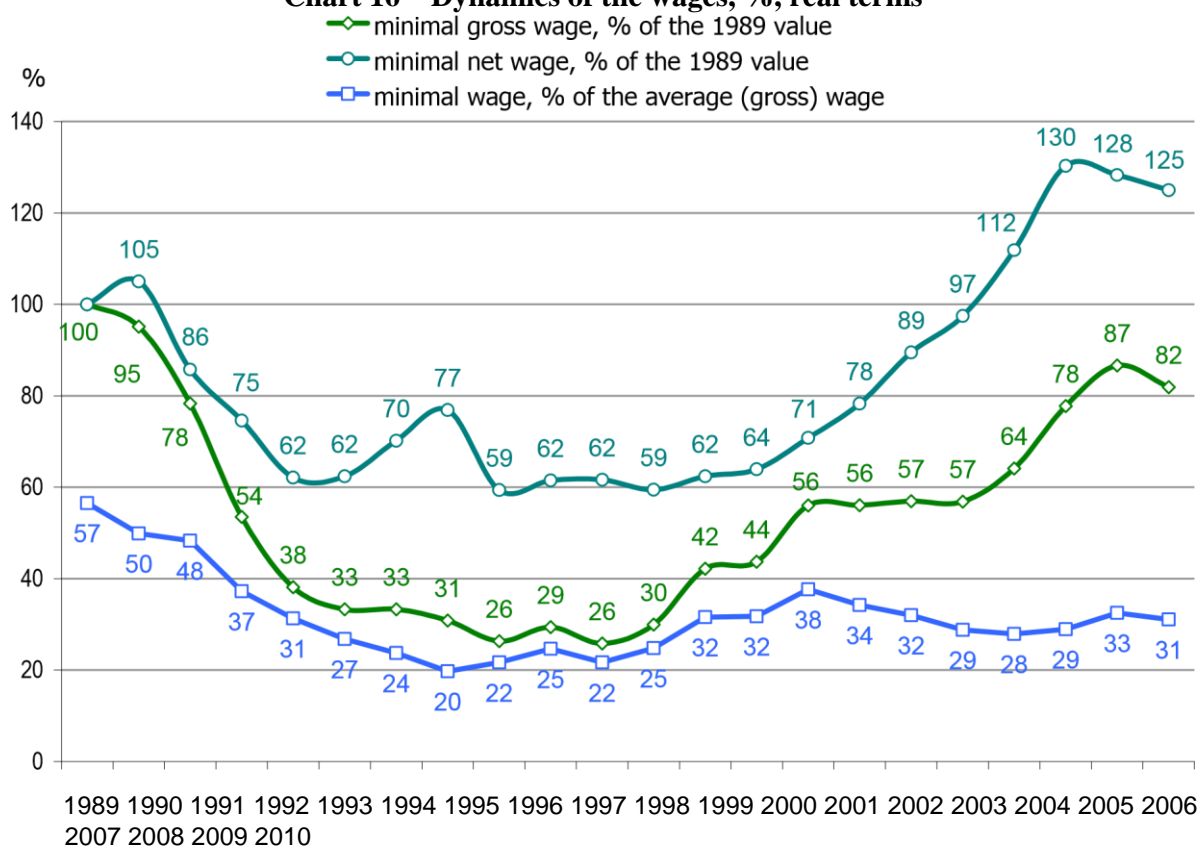
**Table 3 – Average income by equivalent adult in the European Union (2008)**

Country	Euro	Country	Euro
Luxemburg	35448	Greece	12766
Ireland	26808	Slovenia	11709
Denmark	26030	Malta	10585
United Kingdom	22804	Portugal	10288
The Netherlands	22302	Czechia	6809
Finland	22074	Estonia	6333
Sweden	21804	Latvia	5942

Austria	21380	Slovakia	5179
Germany	21086	Lithuania	4944
France	20004	Poland	4939
Belgium	19986	Hungary	4827
Cyprus	18934	Bulgaria	2662
Italy	17734	<b>Romania</b>	<b>2323</b>
Spain	14582		

Source: Eurostat EU-SILC

Note: The equivalence of incomes was achieved taking into consideration the weight of 1 for the first person aged 14 or more; 0.5 for the next persons aged 14 or more; 0.3 for the people aged 0-13.

**Chart 16 – Dynamics of the wages, %, real terms**


Source: processing of raw INS data on the level of wages and inflation rate

At the boundary between the economic and social policies, the wage policies play a major role in the general policy of incomes

## Chapter 5. The Romanian society in crisis

### The precarious starting point

The world crisis found Romania with an already weakened economy and with a structure which don't provides opportunities for a fast revival. Hence, the crisis in Romania is one of the deepest in

Europe. The payments of the debts taken during the past two years will affect even more the economic and social situation in the future.

The crisis started within the context of an impoverished society, the poorest in Europe, poverty which is predicted to continue in this year too. The fast degradation of the standard of life also affects the fragile middle class, many of them being pushed below the poverty line. The social state also is undersized. The direction of intervention is the continuous reduction of the support from the state. Within this context, the current governance has launched a programmatic attack against the social state. The problem is whether such reductions are still possible.

### **Incomes of the population**

A healthy society may cope with an economic crisis, but Romania is experiencing a profound crisis of the society. Our situation is serious because we are confronted with a package of three interconnected crises: economic, politic and social.

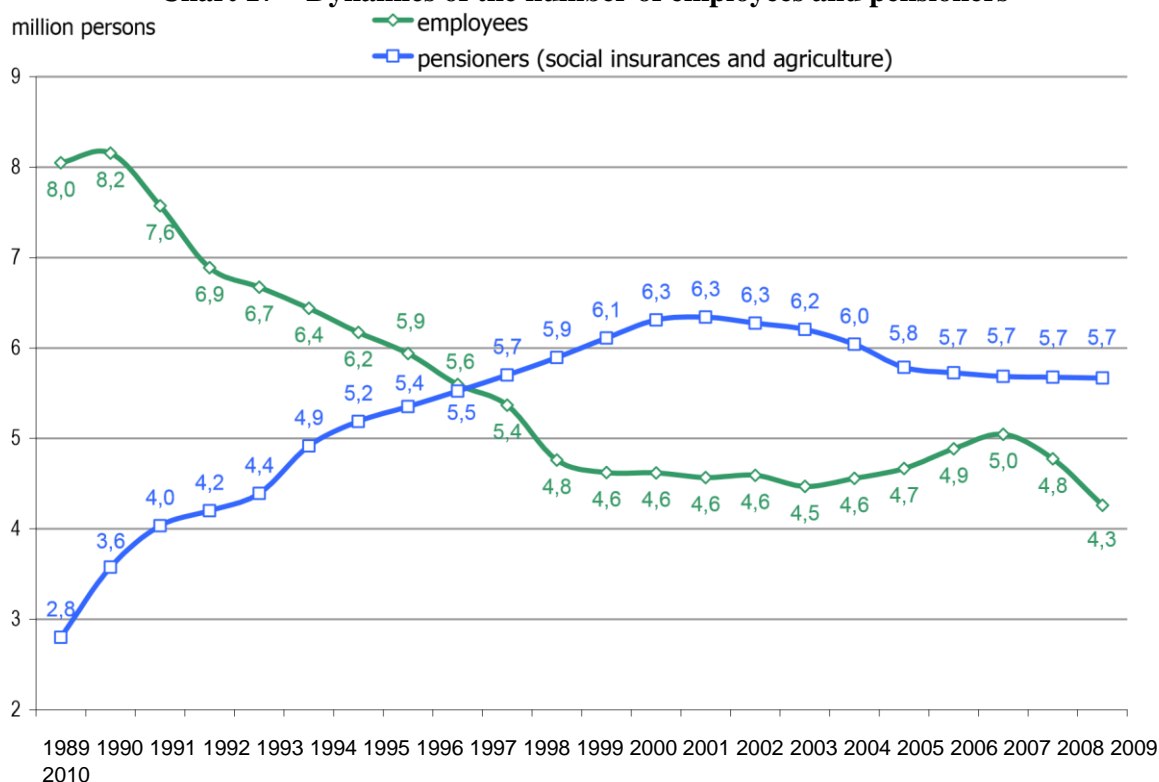
The economic crisis coupled with the political crisis produces the social crisis which, in turn, aggravates the economic situation and makes it even more difficult to surmount the economic and financial problems.

The social crisis is diffuse and, hence, less measurable. If the economic crisis is visible due to the multitude of synthetic economic indicators which show its presence/absence, synthetic indicators for the social crisis are yet to be developed. There are just some sectoral measures oriented towards solving some particular social problems, but not of the overall social crisis. We can, however, state the following characteristics of this crisis:

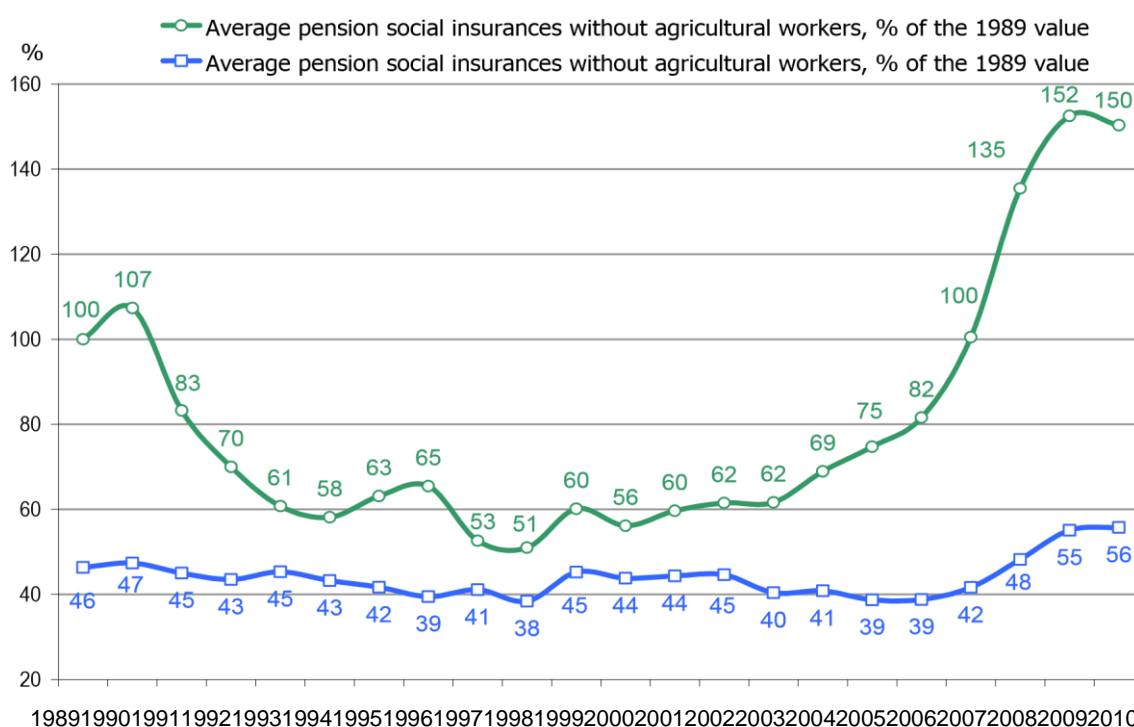
- x Strong impoverishment of the whole society;
- x Institutional crisis: incertitude in all the segments of the social life: education, health, police, public administration, even the justice;
- x Increasing degradation of the collective state of spirit: dissatisfaction, demoralization, distrust in the state institutions, distrust in the other and distrust of Romania in itself; degradation of the social solidarity; passivism, but also social unrest.

### **Policy of population's incomes**

The data show a disappointing situation: after 21 years, the GDP is insignificantly larger than the one from 1989. Result of the uncertain economic evolution, the 21 years after the Revolution didn't improve much the standard of living of the population.

**Chart 17 – Dynamics of the number of employees and pensioners**


Source: INS, MMFPS; for 2010 the number of pensioners and unemployed is estimated from the figures for the first 3 quarters, while the number of employees on the basis of the first 11 months.

**Chart 18 – Dynamics of the incomes from pensions, %, real terms**


The Romanian economy was characterized by two major crises, each of them followed by modest restorations which didn't last and Romania entered a new crisis in the past two years. The last crisis reflected socially in the situation of employment in Romania.

In 2010, the unemployment rate doubled compared to 2008 (from 4%, in 2008 to 7.9%, in 2010), and the number of jobs decreased significantly during the last year.

The **incomes of the population** also experienced dramatic crises followed by disappointing increases compared to 1989. The Eurostat data show that Romania, with an income per capita of 2,323 Euros, holds the bottom position of the 27 European countries. It is preceded by Bulgaria, also with low incomes, and by countries with the income 2 to 15 times higher (Table 3).

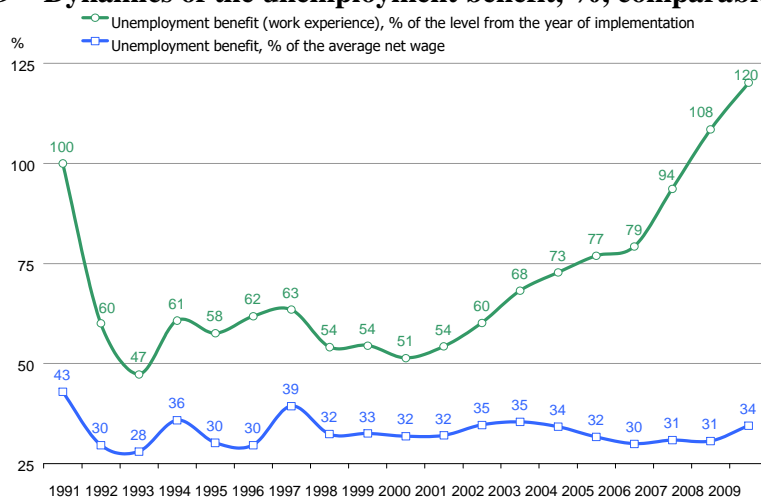
### Income from wages

Only in 2007, the average wage reached the level of 1989. The more significant increase from 2008 seems not to have been sustainable: the wages decreased in 2010 and they will probably continue to decrease in this year too (Chart 16). The average wage and the minimal wage also place Romania on one of the bottom places in the EU (Czech, 2009). Romania is one of the 8 EU countries which didn't increase the minimal wage between 2009 and 2010 and, due to inflation, it is the country where the minimal wage depreciated most in this interval (Schulten, 2010).

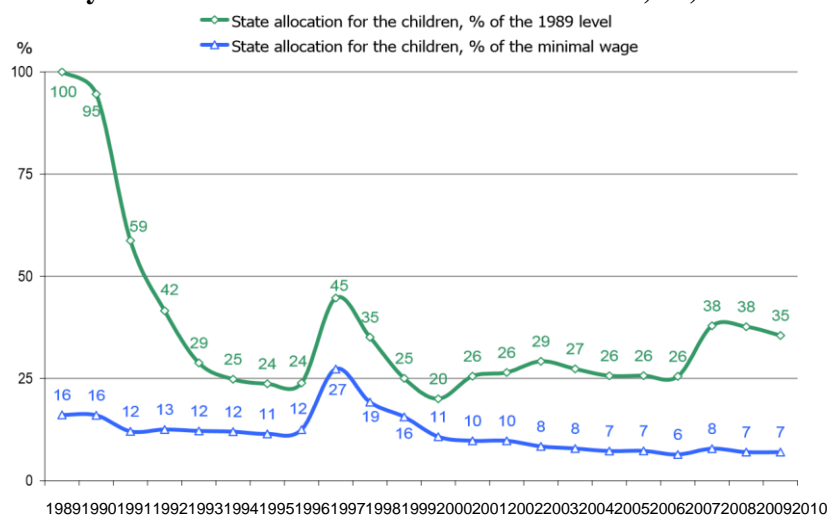
The average wage ceased to be a solid indicator of the standard of living from two reasons:

1. The decrease of the number of employees: in 1989 the wage was the main source of income for most of the active population (over 8 million employees); currently this figure is almost half, reaching 4.1 million by the end of 2010 (Chart 17)
2. Wage polarization: the large wages increased significantly, while the low wages decreased continuously. The average wage increased lately in relation with 1989, while the minimal wage decreased in relation with its 1989 level (Chart 16). Between 2005 and 2009, the proportion of employees with the wage below the average wage varied between 68-72%<sup>17</sup>. The minimal wage represented in 1989 57% of the average wage, decreasing subsequently to 20% in 1996 and 31% in 2010<sup>18</sup>.

The wage policy has an important social effect. The *minimal wage* has the function to ensure a decent standard of living to the employees, and the dignity of work. The option for the policy of the low minimal wage has been motivated by the level of work productivity, by the attraction of foreign investments and by the stimulation of the economic growth. The accomplishment of this objective was modest and the direct social costs and indirect economic costs (demotivation of the work) seem to exceed the benefits. The social dignity of the work doesn't mean just decent wages, but also protection. The policy of labour during the transition period offered some protection to the employees. The current attempt to change the Code of work decreases dramatically the on-the-job protection.

**Chart 19 – Dynamics of the unemployment benefit, %, comparable prices**


Source: INS/Tempo

**Chart 20 – Dynamics of the state allocation for children, %, real terms**


Source: specific legislation for the amount of allocation; raw INS data processing for wages

**Chart 21 – Dynamics of the minimal guaranteed income, explicit measure to control poverty**


The **incomes from self-employed activities**, alternatives to the status of employee, were below the expectations. INS/BFM data show that the self-employed people account during the past 5 years for about 20% of the occupied population (most in agriculture), plus 1.5% entrepreneurs. However, just 3-4% of the monetary incomes of the households came from self-employed activities (INS, Tempo). The self-employed activities proved thus frail, running high risks and producing modest incomes.

The **informal economy**<sup>19</sup> displayed a dynamics contrary to the formal economy (Albu, 2008, Ciupagea, 2006, Parlevliet and Xenogiani, 2008, Stănculescu and Ilie, 2001). It increased during the period economic decrease when it supported part of the population, being a strategy to ensure the basic resources for living within an unfriendly economic environment. The informal economy has also been a personal strategy to get rich, being an important factor of the economic underdevelopment and budgetary crisis.

The **work abroad**, both legal and informal, represented an important opportunity, but it also proved fluctuating, with contradictory effects. Labour force migration was generally profitable individually. However, definitively or temporary out of the country, the immigrants are people who left the Romanian economy and thus decreased the number of potential contributors to the state budget. On the other hand, it is a draining of the labour force. The opportunities to work abroad decreased when the world crisis started. Beyond the individual financial benefits, there also are social and familial costs among which the separation from the children: about 90,000 children have their parents working abroad (according to data from September 2008 and June 2010 DGPC/MMFPS).

The **pensions** represented in Romania a factor which supported much of the population in a state of relative stability. The dramatic decrease of the number of jobs was compensated initially by a policy which encouraged the early retirement. Such a replacement of the income from wage was no economic advantage, however, rather a substantial loss of income. The retirement was preferred to unemployment and to the difficulties of reinsertion on the labour market.

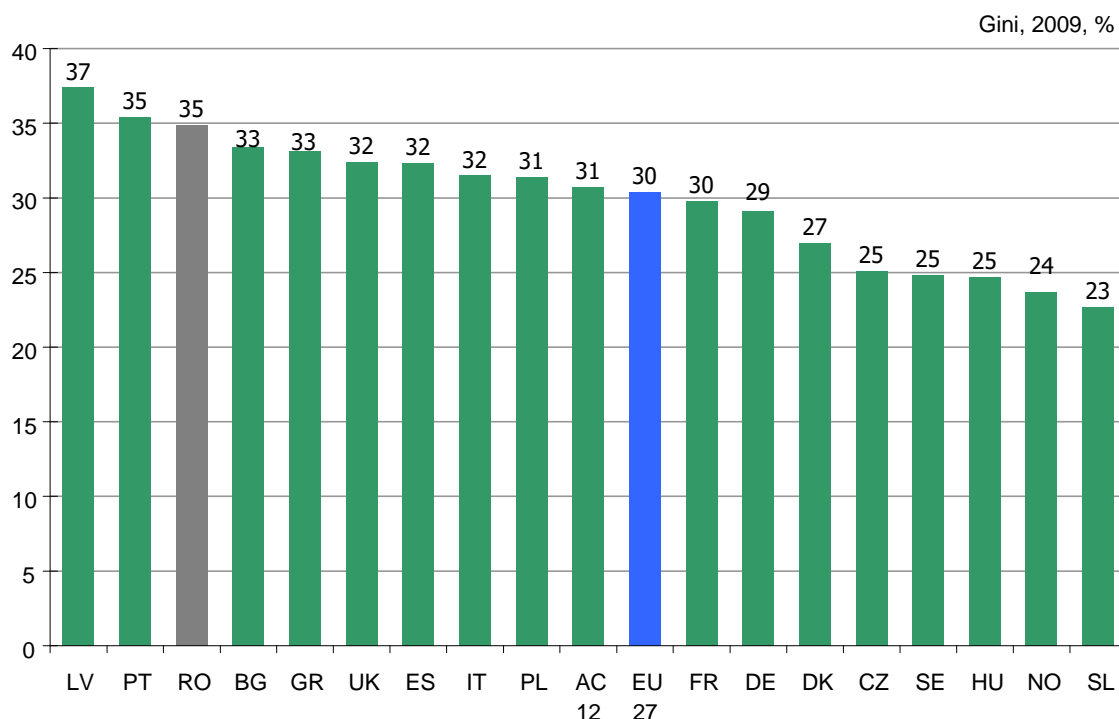
The number of pensioners from 1989 (2.8 million) almost doubled until 2000, being around 5.7 million during the recent years (Chart 17).

The value of the pensions also decreased dramatically during the transition: the 1989 level was reached only in 2007 (Chart 18). Throughout this period, the average pension remained at 40-45% of the average wage, increasing to 55% in 2009. The increase of pensions during the recent two years was due to the introduction of the minimal pension (form of social assistance for the elder) and to the increase of the pension point.

In 2010, the pensions eroded and they will continue to decrease in 2011 too by changes in their taxation rules and by the recalculation of the professional pensions, as if they were contributive.

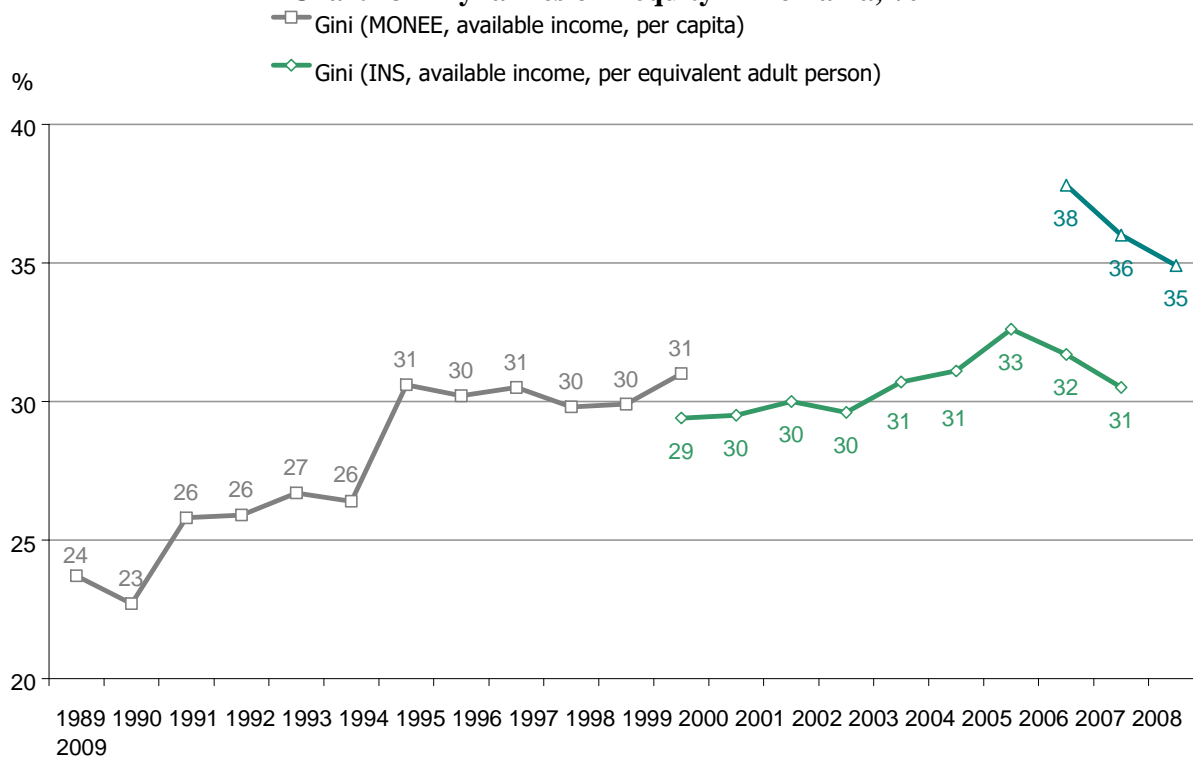
The new formula breaks the direct relation between the average wage and the pension. The government estimates that the recalculation of the pensions will save a few billion Euros.

**Chart 22 – Inequality in the European Union**



Source: Eurostat, epp.eurostat.ec.europa.eu

**Chart 23 – Dynamics of inequity in Romania, %**





Source: INS data and international databases [www.unicef-irc.org/databases/transmonee](http://www.unicef-irc.org/databases/transmonee); <http://epp.eurostat.ec.europa.eu>; (Zaman and Stănculescu, 2007) Note: there are no indicators calculated using the same methodology for all the period. The differences consist in the way the income is defined, calculated per capita or per equivalent adult, which mean whether the value of the consumption from own resources is included or not in the acceptance of the income. EUSILC methodology, agreed currently in the EU only considers the monetary income per equivalent adult.

In the perpetual effort, over the past 15 years, to enlarge the taxation basis, still insufficient however, the pensioners have to bear the income tax and the contribution to health insurances, applied marginally to the pensions since 1997. The changes introduced in 2011 in the taxation of the pensions affect practically all the pensioners with the pension higher than the average pension.

The **unemployment benefit**<sup>20</sup>, as form of insurance during the transition to another job, experienced the same fate. Quite low from the moment it was introduced (1991, 43% of the average wage), the unemployment benefit had decreased in two years to half of its initial value, maintaining for a long period at low levels. The unemployment benefit exceeded the 1991 value only in 2008, due to the increase of the wages, which are used as calculation basis (fixed percentage from the minimal wage plus a percentage of the lost wage) (Chart 19).

The attention paid to the *family with children* varied in time. The **state allocation for the children**, the most extended social benefit for children, rather high in 1989, crashed in the early years after the revolution and it remained constantly below the initial value; it amounted to about 36% over the recent years. Related to the minimal wage, the state allowance for the children decreased from 16% (in 1989) to 7% of the minimal gross wage (in 2010), or 9% of the minimal net wage (Chart 20).

After 1997, the family with children was more in the attention of the political decision-makers mainly due to the political pressure to reduce children institutionalization. The attention was even higher due to the data which were consistently identifying a higher risk of poverty for the children than in other categories of the population (Teșliuc et al., 2001). Once Romania accessed the EU, the social inclusion policies have defined this group as a target group for social intervention. After 2004, the family with children received higher attention, one of the measures being the increase of the allocation for the parent in leave to raise the child below the age of 2 (3 for the children with handicap). One of the effects of this measure was that the pressure on the jobs relaxed, the number of jobs decreasing continuously, nevertheless.

The **minimal guaranteed income (MGI)**, the “last social security safety net”, introduced late, after fiery discussions and considered from the very beginning to be too high, crashed rapidly in the subsequent years to little over 50% of its initial value, reaching about 20% of the minimal wage (Chart 21). During the recent years, this social benefit, which provides an elementary subsistence, very modest in relation with the basic needs, is provided only partially or even at all in some localities due to the lack of resources.

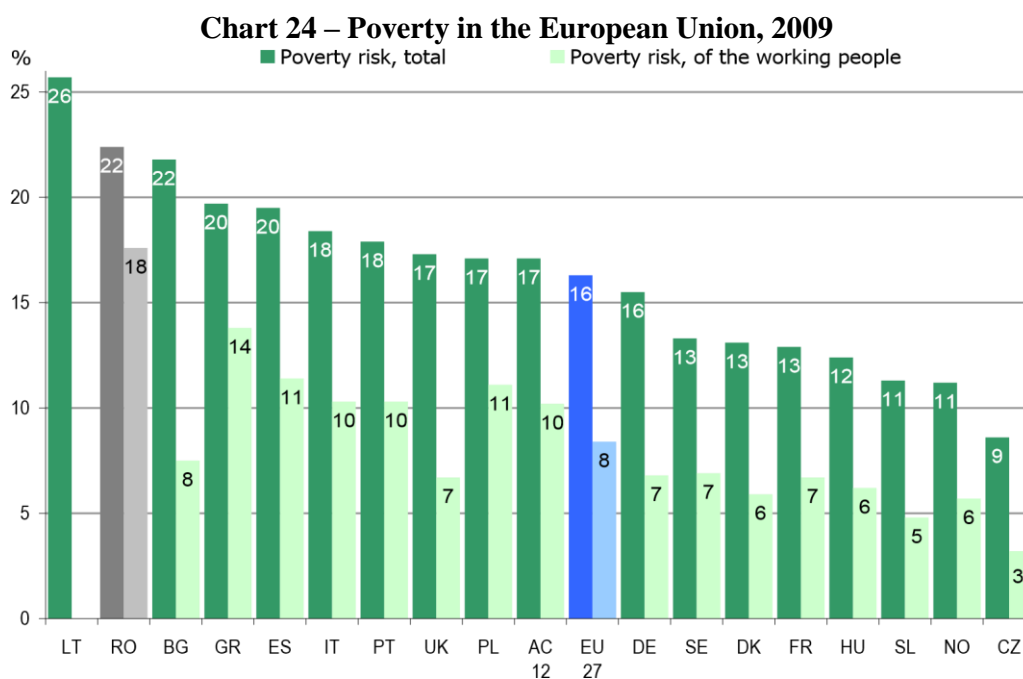
## An increasingly unequal society

In the European culture, the maintenance of a moderate inequality has been a fundamental value for the past few centuries. An important set of indicators used by the European statistics measure the equality/inequality: mainly, the Gini index and the ratio of the wealthiest 20% households to the poorest 20% households - S80/20.

**Table 4 – Changes in the level of wages, at county level**

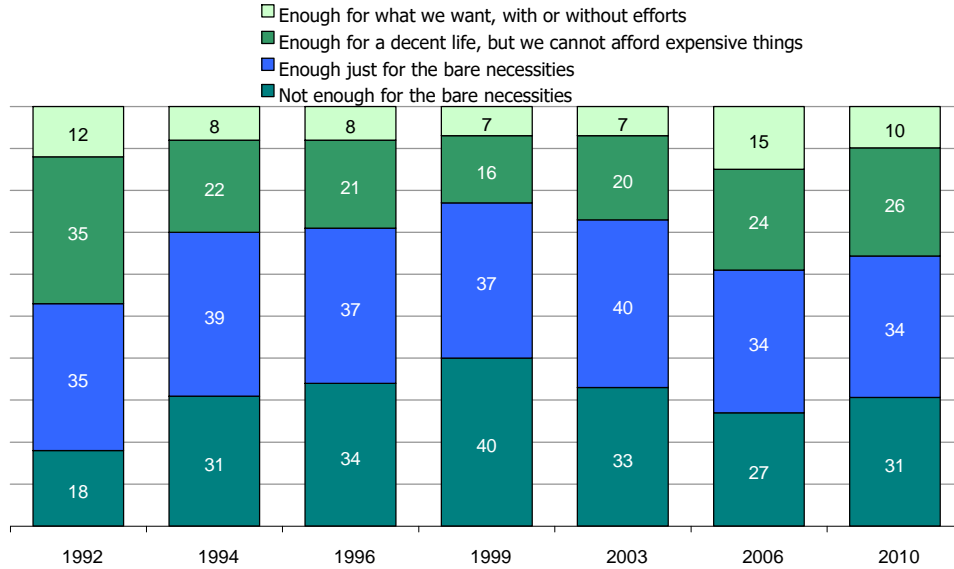
	1989	2000	2009
Minimal related to the national average, %	87.6 (Botoșani)	78.2 (Călărași)	75.3 (Bihor)
Maximal related to the national average, %	126.5 (Hunedoara)	129.7 (Bucharest)	134.6 (Bucharest)
Difference between the highest and lowest wage in the county (p.p.)	38.9	51.5	59.3

Source: processing of raw data from INS/Tempo



Source: Eurostat, [epp.eurostat.ec.europa.eu](http://epp.eurostat.ec.europa.eu)

Note: the international comparisons regarding the standard of living are done on the basis of the relative poverty indicator; the rate of relative poverty is the proportion of people who have an income by equivalent adult lower than the national average level, which is set at 60% of the median of the available incomes. The people with such incomes run the risk of being poor.

**Chart 25. – Evaluation of incomes in relation with the needs, %**

Source: Diagnosis of the quality of life, periodical survey of IQLR

As cumulated result of the action of the market and of the social policies, in 2008 and 2009, the last years of comparison at EU level, Romania had one of the highest inequalities (the Gini index – 34.9)<sup>21</sup> being exceeded by Latvia and, in 2009, by Portugal too. At the opposite end, with the lowest inequalities, were Norway, Hungary, Slovakia, Sweden and Czechia, with indices between 23-25, the 1989 level of the Gini index in Romania (Charts 22 and 23).

S80/20 ratio too was among the highest (7) in EU, being exceeded only by Latvia (7.3), compared to a minimal level of 3.3 in Slovenia and Slovakia and with an European average of 5 in 2008 (Atkinson and Marlier, 2010).

The most serious problem with the inequality is the formation of the *black area* which includes that segment of the population which always is in the area of low incomes, continuously insufficient compared to the basic necessities. This segment of the population, persisting in a state of severe and chronic poverty, also accumulates educational and cultural handicaps, getting thus astray from the rest of the population. The increase of the black areas expands and consolidates the culture of poverty in important areas of the community and this is a factor of resistance to the economic growth.

The *polarization of Romania is zonal* too. The expanding inequality can also be quantified by the size of the gaps between the average wages by county. In 1989, the county with the lowest average wage was Botoșani, with a wage representing 87.6% of the average national wage, while the county with the highest average wage was Hunedoara with a wage 26.5% higher than the average national wage. In 2009, both the lowest and the highest average wage went farther away from the national average (Table 4).

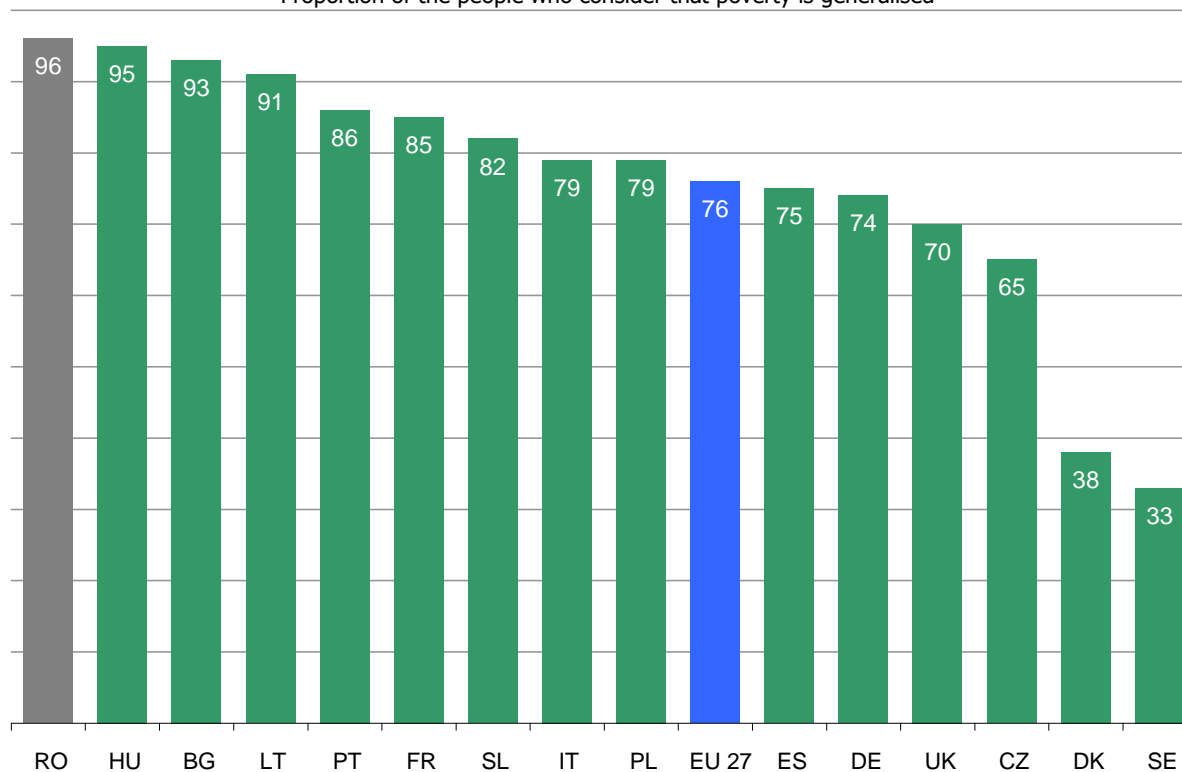
**Strong impoverishment, hard to absorb, with the risk of becoming chronic**

The *impoverishment* is a very high social cost of the transition in Romania. The social cost of transition, high at the beginning of the period, was expected to be resorbed progressively, as the process of economic and social reorganisation develops. The 21 years of transition display, however, a sinuous dynamics of the poverty, with periods of decrease followed by periods of increase, complementary with the sinuous dynamics of the economy (Zamfir, 1995, Zamfir, 2001).

The Romanian economy offers now low economic opportunities: generally low incomes, fewer and fewer jobs, limited and vulnerable opportunities for entrepreneurial activities, high fiscality for the working force which fuels the informal employment and, consequently, the arbitrary rewarding of the work and possibly unhealthy conditions of work. The economy limited the economic opportunities for the groups which are traditionally vulnerable on the labour market, so that they used the early retirement, the abusive retirement due to sickness, the registered or unregistered unemployment and inoccupation; this stimulated the migration of the labour force, which thus contributes to the budgets of other countries.

**Chart 26. – Subjective perception of the poverty, 2010**

Proportion of the people who consider that poverty is generalised



Source: European Commission, 2010

**Threshold of the minimal decent standard of life**

With own means, starting from 1991, IQLR started a program to measure poverty. IQLR methodology relied initially on the normative method and it involved the determination of a *minimal decent basket* of products and services which the person/family need for a decent standard of living. Unlike the relative method, the determination of the basket, thus of the *minimal decent threshold* (MT), is done on the basis of the norms of consumption determined by the specialists. Thus, this is a value independent of the general level of the incomes in the society; its aim is to cover the basic needs at a level which will not affect the biological and working potential of the people, or its development and social integration. The needs refer thus to the current consumption (food, clothing, footwear, dwelling, services), to education and professional formation, to the social status.

The MT used in this paper is developed by IQLR and it is updated periodically with the index of the consumer prices. For comparison, we considered some typical families with their standard incomes. MT is calculated for each type of family.

Currently, the level of relative poverty in Romania (22.4%) is second only to that from Latvia, while the European average is 16.3% (Chart 24). The dynamics of the subjective estimations of poverty show that the population feels the crisis at a high intensity, the highest in Europe (Charts 25 and 26). The perception of generalized poverty is higher than in 2009 (90%). A 10% increase was observed in the segment of the people who consider that the *poverty is due to the social injustice* (61% in 2010), proportion which puts Romania on the top position among EU countries (CE, 2010).

**Groups with high risk of poverty**

Poverty comprehended, in various, yet significant degrees, all the social groups (BM et al., 2007). The large segment of the economically unoccupied population lives “a day at a time”, the unemployment system providing largely the minimal conditions of subsistence.

Most worrying is that poverty reached the economically active population too, including the group of *employees*. Having a job doesn’t take one out of poverty. The risk of poverty for the working people from Romania is the highest in Europe (17.9%, compared to the European average of 8.4%), far ahead countries such as Czechia, Slovenia, Sweden, Hungary, Norway and Denmark, with very low levels of the risk of poverty (3-6%, Chart 24) and of inequality.

The low wages don’t guarantee the way out of poverty, rather the contrary: the standard family, with 2 minimal wages, lies much below the minimal level for a decent standard of living (Chart 26), compared to the international data already mentioned (Chart 24), which is another evidence of the low capacity of the work to ensure a decent standard of life in Romania.

Chart 27 shows the **polarization in poverty**: besides the higher proportion of employees with low wages, there is a different evolution of the families with medium wages and of those with low wages compared to the minimal decent standard of living. The gap between them increased from 51% in 1990 to 69% in 1996, 89% in 2008 and 72% in October 2010.

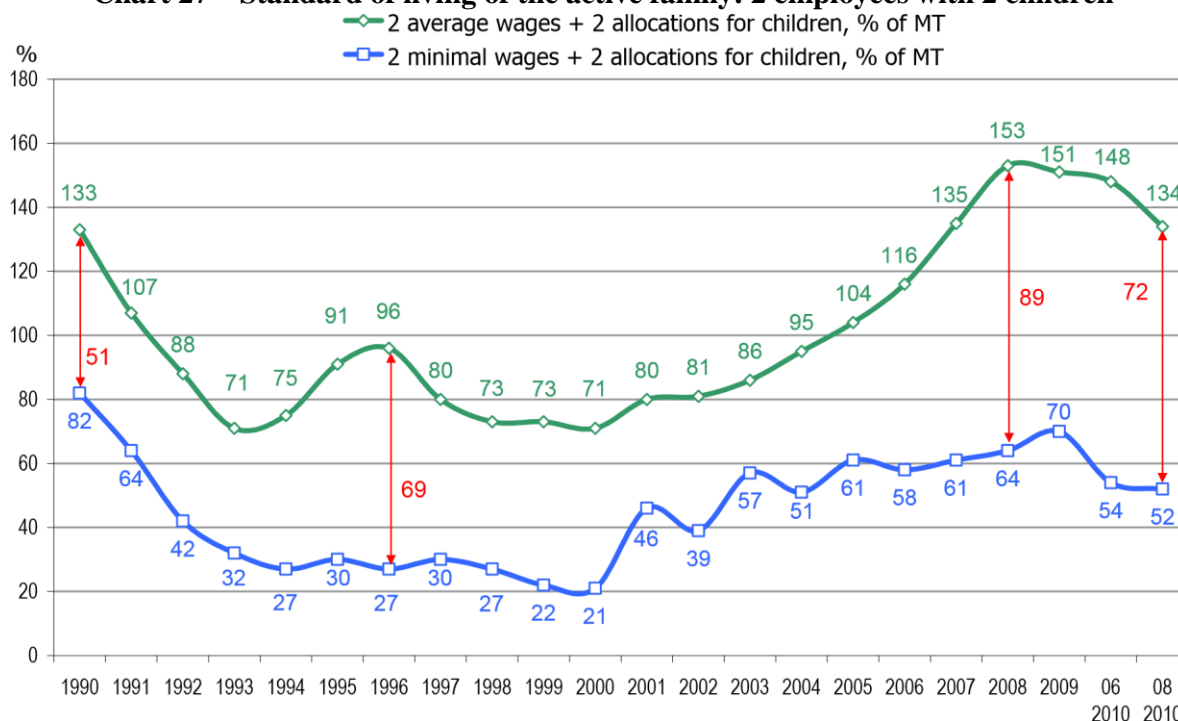
The dynamics of the standard of living of the *active family from the upper medium segment* (four persons, 2 average wages and 2 allocations for children) shows:

- x Three periods of decrease: 1991-93, 1997-2000, 2009-;
- x A long period of 13 years – between 1992 and 2004 – when it was below the minimal standard of living;
- x The year 2010, when the standard upper family was at the same level of the standard of living as in 1990.

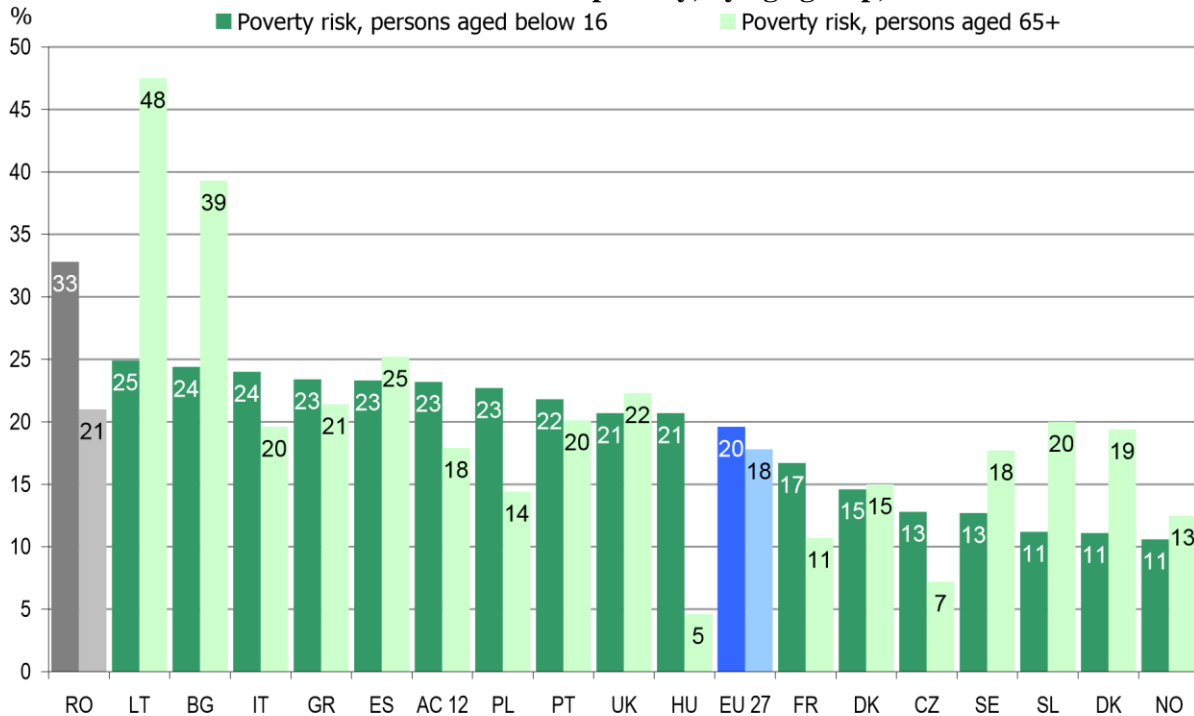
The dynamics of the standard of living of the *active family from the lower medium* – 2 minimal wages and 2 allocations for children – has an evolution with several distinctive traits:

- x It is consistently and significantly below the minimal standard of life;
- x Throughout the transition years it was substantially below the level of the initial year, 1990;
- x The highest levels were recorded at the beginning and end of the post-revolutionary period 1990 (82%), 2008 (64%) and 2009 (70%), while the minimal levels show a state of severe poverty: 1994 – 27% and 2000 – 20%.

**Chart 27 – Standard of living of the active family: 2 employees with 2 children**



Source: IQLR calculations

**Chart 28. Rate of relative poverty, by age group, 2009**Source: Eurostat, [epp.eurostat.ec.europa.eu](http://epp.eurostat.ec.europa.eu)

*Compared to 1989, during the last 2 years, the standard of living of the upper medium segment of the employees didn't increase much, while the segment of the population with low wages is even poorer.*

### Pensioners

The large majority of the old people are covered by the system of pensions. The data regarding the past years show a low risk of poverty for this category of population, even if it is above the European average (Chart 28). The relative welfare of the pensioners is explained by: the certitude of an income; the existence of two pensions; ownership of the dwelling acquired in the past; accumulation of household appliances (which allow the full use of incomes for the current consumption) and a reasonable health care system.

The future elder have less enjoying perspectives because they will be less covered by social insurances of pensions: some will not have at all and many will have low pensions due to the few years of employment and low social contributions. Many will suffer from the lack of health care insurance.

### Families with children

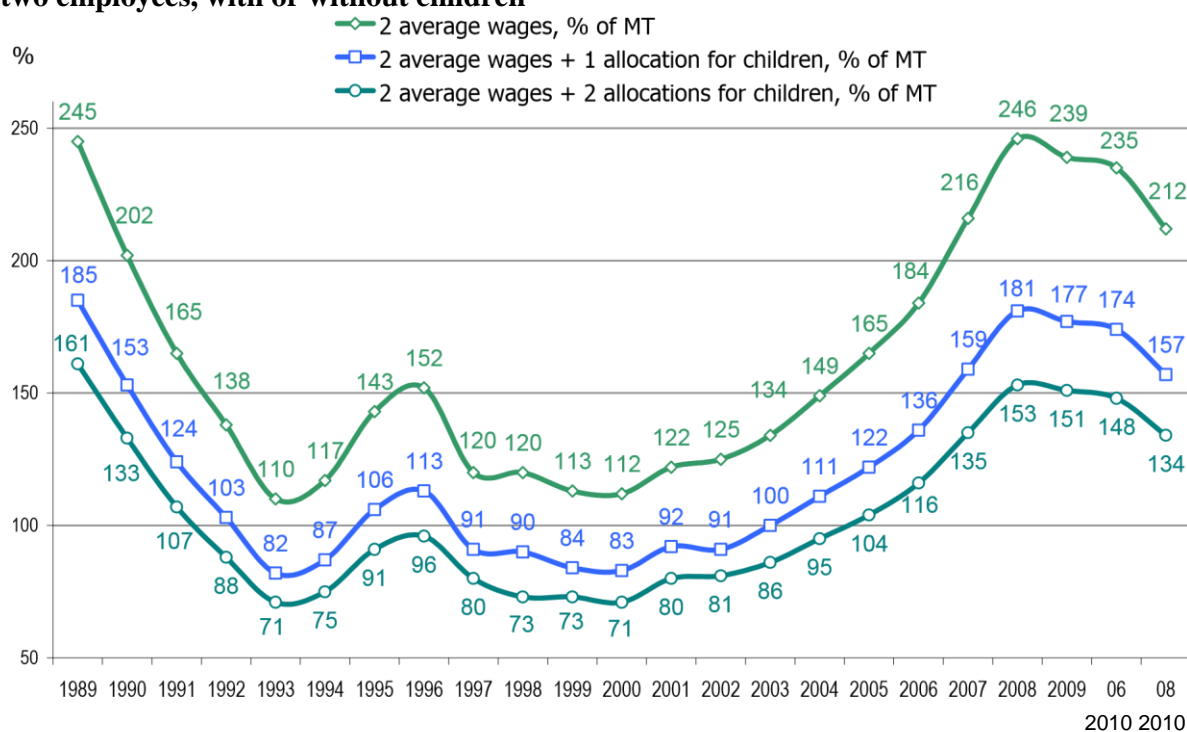
Although there was a policy to support the families with children, it proved to be completely unsatisfactory; the children represent a very high risk of poverty, the highest among EU countries (Chart 28). Generally, the children from employed families, with average wages or higher, have reasonable conditions of living. However, since most incomes are low, the appearance of a child affects substantially the standard of living of the family, the *children* suffering the poverty of their parents (Chart 29).

The single parent families also run a high risk of poverty (Chart 29). The single parent families and the families with more than 3 children are condemned to severe poverty. The children are abandoned, often in the street; other children are abandoned in institutions, many of them underfinanced and improperly managed.

The state allocations for the children were supposed to play an important compensating role under the conditions of collective precariousness. The official data on the standard of living show that in 2009, more than half of the families with two adult people and 3 or more children and more than a third of the single parent families live in relative poverty (56.3% and 35.3%, respectively, INS, 2010).

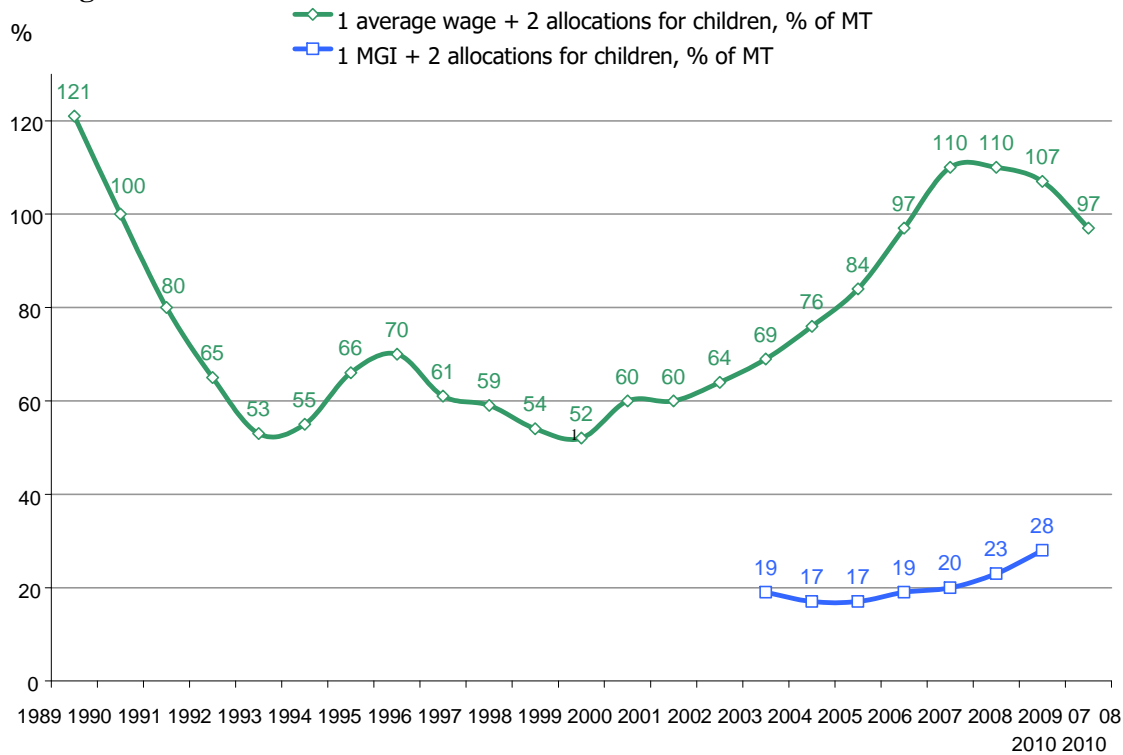
The **families with no wage, with one or two unemployment benefits**, excluded temporarily or chronically from the economic system, are confronted with severe poverty (Stănculescu and Berevoiescu, 2004). Dwelling in the country side might provide some sources of food and some conditions to cope easier with the shortcomings. The existence of small agricultural plots, but the lack of the necessary means to make agriculture, provides conditions of subsistence but in chronic poverty.

**Chart 29. Effect of the number of children on the standard of living of the family: family with two employees, with or without children**



Source: IQLS calculation



**Chart 30 Standard of living of a single parent family with two children, with or without income from wage**

Source: IQLS calculation

The **migration to work abroad**, particularly if it is illegal, provides an answer to the imperatives of the moment, but exposes the immigrants due to the lack of social and health insurances. Furthermore, a segment of the immigrants is confronted with illegal and degrading activities.

The **young people lacking personal resources**. Unemployment among the young people is high; in this case, the traditional support of the family is an essential condition for the everyday living. The impoverishment of the adult generation, of the elderly particularly, decreases the support for the young. Young people poverty is less studied.

**Victims of the current crisis**, the employees with average wages or higher and the pensioners, who benefited of the stability of the pensions and who took loans, are now confronted with poverty: decrease of incomes, wage cuts, risk of sickness. The phenomenon reaches practically all the age categories, with real estate loans or with loans for personal needs, taken to meet minimal, decent dwelling conditions or consumption needs.

They are supplemented by the **victims of swindle activities**, who are not protected by the police / legal system, due to thefts, loans with usury (the only available when there is no stable income in the family), the loss of dwelling by retrocession or deceit.

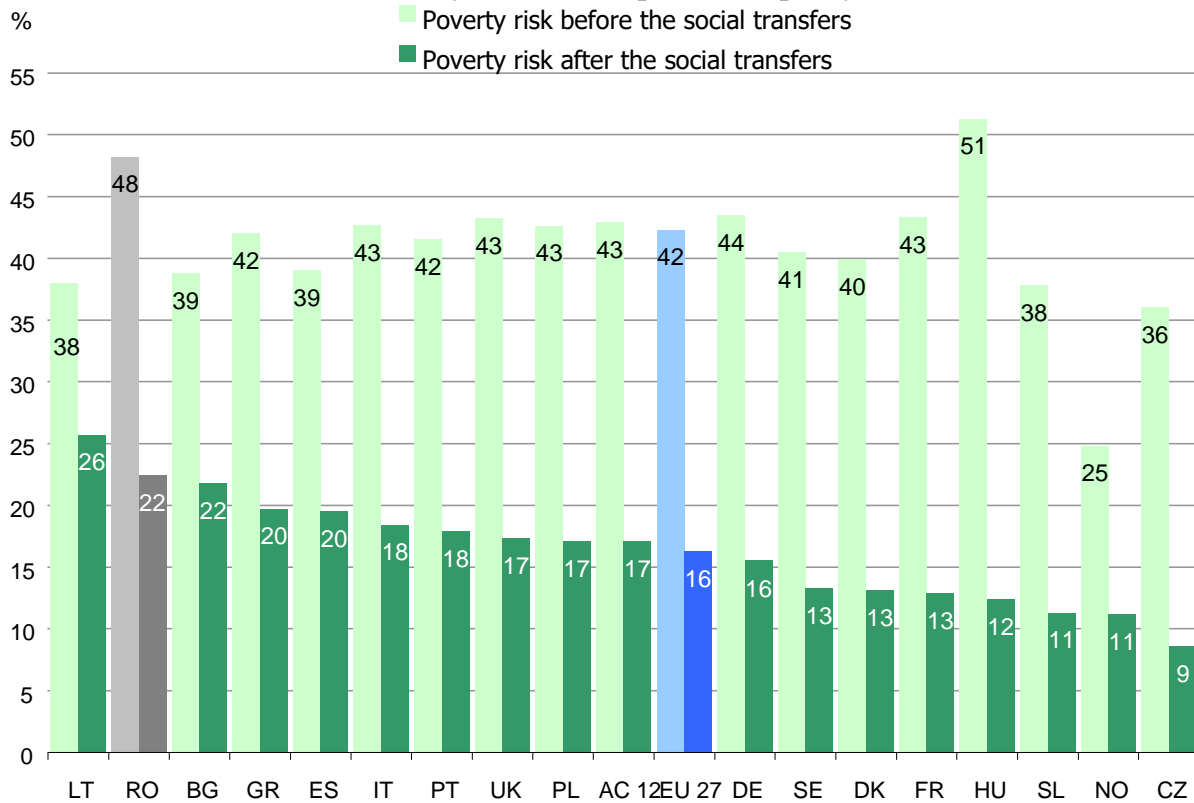
### **Antipoverty policy in the European Union and in Romania**

For the modern societies, particularly for the EU, poverty is not a problem of the people, rather of the entire community. It is an illusion to think that poverty is a state produced exclusively by the economy. For the EU, the social aspect also is an important direction of the commune policy.

In a recent analysis, the Nobel prize laureate for economy, Paul Krugman (2010), was showing that in some economic analyses, Europe was often used as negative example to support the thesis that if you try to make the economy less brutal and to protect the citizens better when they are cornered, you end by smothering the economic progress. This conception is fully wrong, according to Krugman, the European experience showing exactly the opposite: the social policy and the progress can coexist.

In the EU, the social transfers contribute to the reduction of the relative poverty, in average by 60%. Therefore, more than half of the people in risk of poverty due to the economic activity leave the risk area due to the policies of social protection. The efficiency of the social transfers to reduce poverty was highest in Hungary, France, Sweden and Austria, with reductions in excess of 70% - Chart 31.

The efficiency of the anti-poverty policy in Romania, with the same structure, is below the European average in an year when the effect of alleviating poverty by social protection, at the national level, increased compared to the previous years (Table 5). During the past 3 years the relative poverty decreased in Romania, while the poverty resulting from the productive activity (pre-transfer) increased; the pensions played a progressive compensating role in the alleviation of poverty (2-3 times higher than all the other social services together).

**Chart 31 – Efficiency of the social protection policy in EU, 2009**Source: Eurostat, [epp.eurostat.ec.europa.eu](http://epp.eurostat.ec.europa.eu)**Table 5 Relative poverty pre and post social transfers in Romania**

	Pre-transfer poverty, with incomes from work, no social transfers, %	Post-transfer poverty, %, with incomes		Decrease of the poverty risk, p.p.	
		From work and pensions	From work, pensions and social assistance	By pensions	By other social transfers
2007	46.0	30.9	24.8	-15.1	-6.1
2008	47.8	30.7	23.4	-17.1	-7.3
2009	48.2	29.1	22.4	-19.1	-6.7

Sources: INS, 2010; INS/Tendințe, 2009; <http://epp.eurostat.ec.europa.eu/>

Romania holds the bottom position in the EU regarding the trust in the capacity of the government to control poverty (11%). The European Union (63%) and the religious institutions (64%) enjoy the highest level of trust of the Romanian population as to their role (EC, 2010; Chart 32).

The Romanian Presidency has adopted in 1997 an *Anti-poverty Strategy* which has been, nevertheless, ignored by the Government, and it was not transformed into a governmental project. A better attempt in this direction was done only in 2001, by the construction of a national system: CASPIS – *Commission on Anti-poverty and for the Promotion of Social Inclusion*, CJASPIS –

*County Commissions on Anti-poverty and for the Promotion of Social Inclusion* and, by Government's decision, was adopted the *National Plan on Anti-poverty and for the Promotion of Social Inclusion (PNA-inc)*. In 2004, as a condition for the accession to the EU, CASPIS developed JIM (Joint Inclusion Memorandum) adopted by the Government of Romania, approved in 2005 by the European Commission and signed as commitment by the Government of Romania towards the European Commission during the pre-accession process<sup>22</sup>.

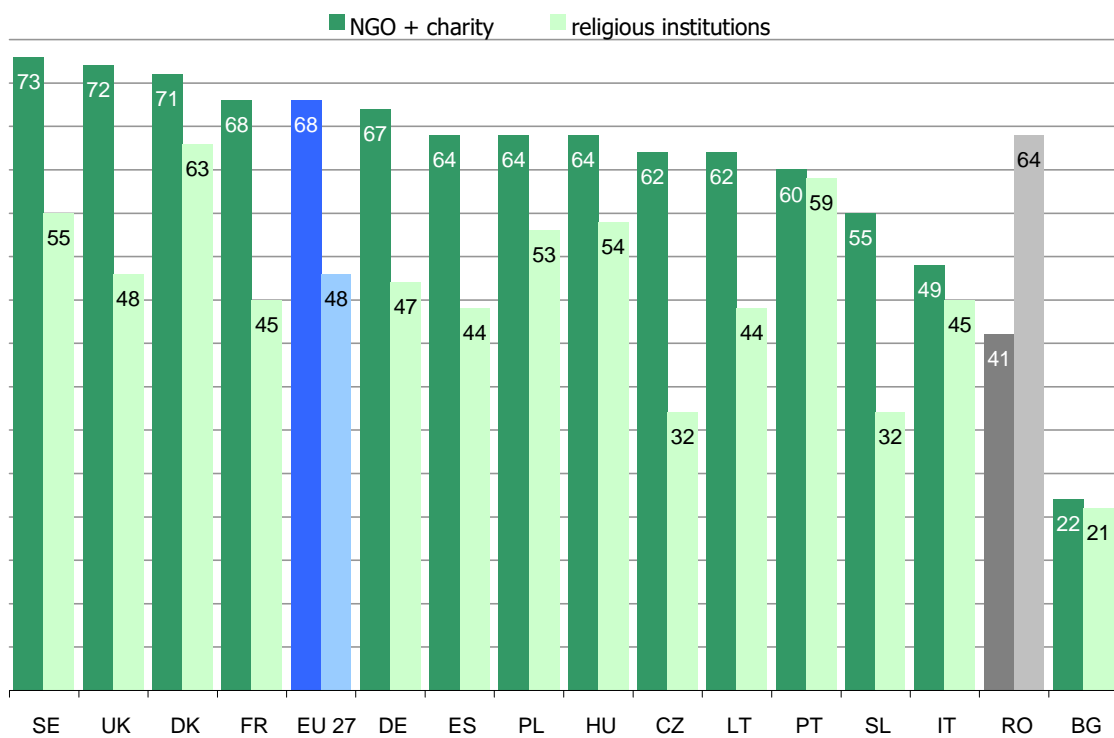
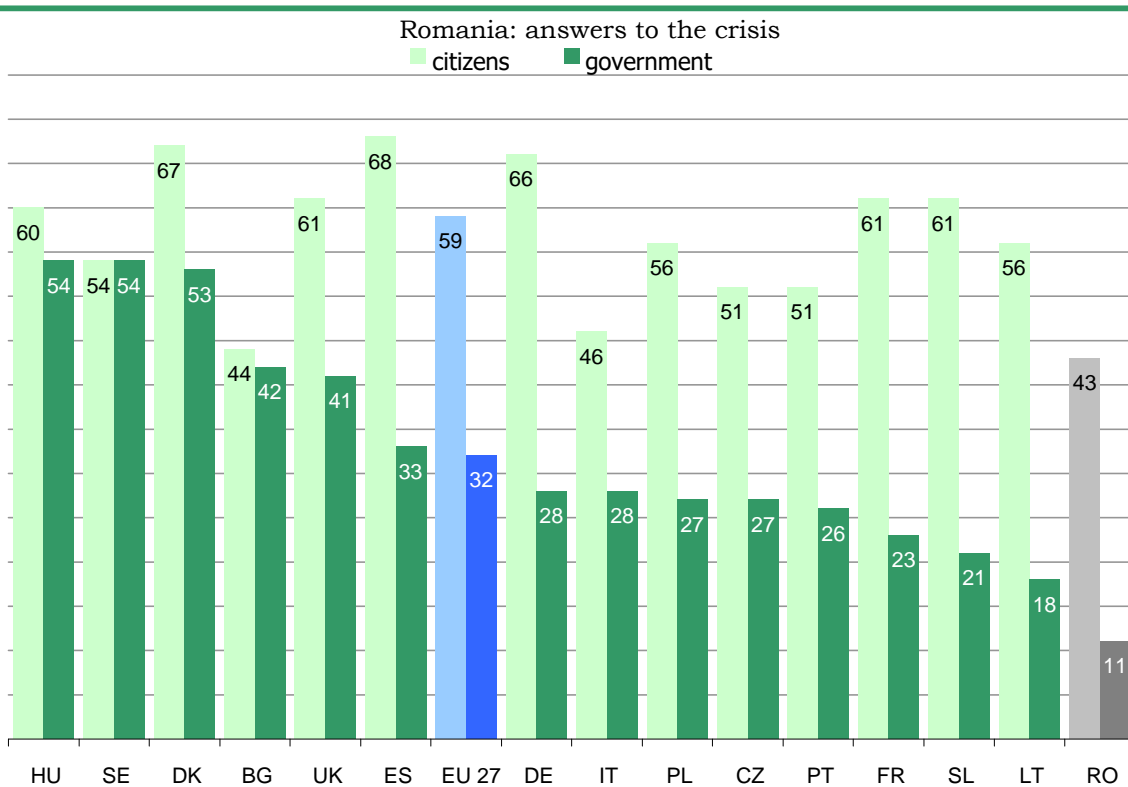
With this, the narrower objective of reducing poverty has been included in a wider social policy to promote inclusion in all the spheres of the social life. The expansion has been stimulated by the European context, which has introduced the new concept of *social inclusion* as core concept of the social policy.

The institutional structure, the antipoverty programs and the programs for the promotion of the social inclusion, which had started to function and to be applied, have been abandoned in 2005 when the governance changed. The governance of 2009-2011 stressed this negative trend, launching an attack at the social functions of the state and taking practical measures to withdraw the state from the social support. Paradoxically, in 2010, year which the European Commission has declared as the *European year for the fight against poverty and social exclusion*, the governing strategy is contrary to these priorities by promoting hard measures of austerity, invoking obsessively the reduction of the social expenditure as pre-condition of escaping from the crisis.

### **A demoralized society**

**A confused and dissatisfied population.** The social crisis is emphasized by a moral crisis of the society. The perpetual insufficient material resources and unsafety instaurate a state of impotency. Throughout a year of crisis, the satisfaction with life in Romania decreased significantly, showing the strongest contraction in Europe (from 5.8 to 5.3 – Chart 33). The hope for a better future vanished, the optimism of the Romanians for the future also being among the lowest in Europe (47% in 2010 compared to 53% in 2009). According to IRES study (2010), the optimism decreases sharply at the people over the age of 35, particularly in the pensioners. The decrease of the optimism in most of the population, particularly in the vulnerable groups, shows a critical moment which displays a trend for chronicization as the social effects of the measures of austerity will be felt.

**Chart 32a, 32b. For each of the following items, please state whether you tend to trust or not their actions to control poverty. The charts show the proportion of the people tending to trust**



Source: Eurostat

The social problems, accentuated in Romania by their accumulation during the long period of transition and during the past years of economic crisis, are aggravated by the programmatic antisocial policy.

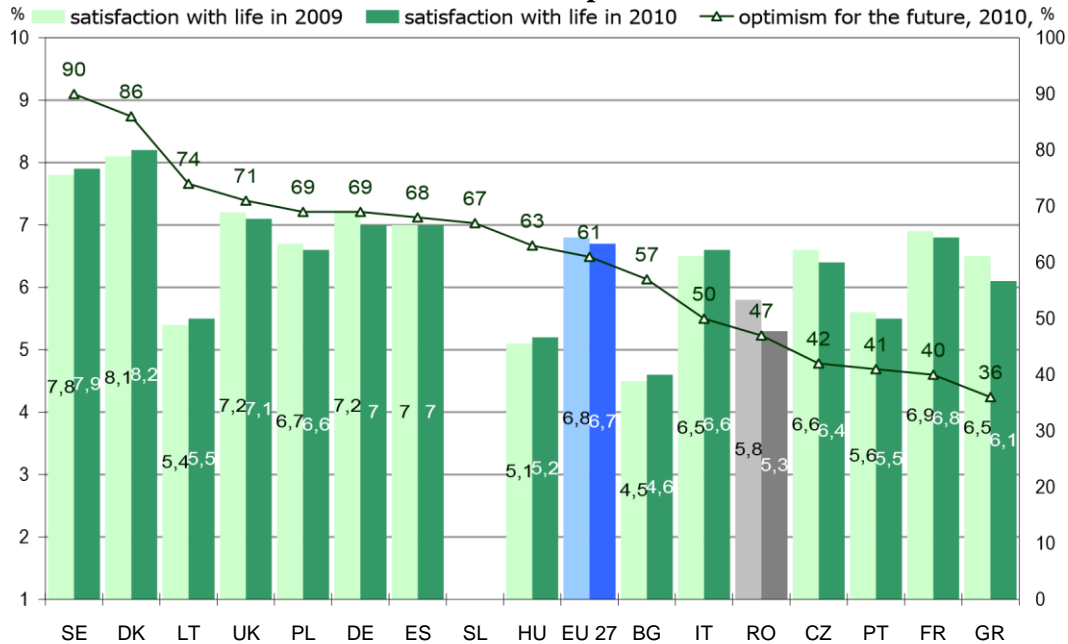
The **economic demoralization** comes from the incertitude of finding a job, from the risk of losing the job and becoming unemployed, or from the risk of losing a substantial amount from the wage or pension.

The **political demoralization** comes from the feeling of not being able to influence, within a democratic system, the decisions which affect your life. According to IQLR survey<sup>23</sup>, nine Romanians of ten consider that their possibility to influence the way in which the country is governed is low and very low (Table 6). The trust in the political parties is falling, but close to the 2009 values, while the trust in the Government and Parliament crashed compared to the past year (Chart 34).

The 2010 IQLR survey (Table 6) reveals that most of the population evaluates in a negative way the manner in which the country is governed, and the dynamics of this indicator decreased sharply compared to 2006. A similar trend was visible in the period 1997-1999.

In 2010, eight people of ten agreed with the statement that “the country is governed bad and very bad”. No governance of the past 20 years has been evaluated so critically and by so many people. The synthesis of these evaluations is shown by the level of satisfaction with the policy: 86% of the Romanian people are dissatisfied with the political life, which is the highest level of dissatisfaction of the past 20 years.

The **community demoralization**, showed by the distrust in other people, in the collective capacity to act, and in their community. In 2010, less than a third of the population (30%) stated that in 2010 one can trust the people, compared to 36% in 2006 (Mărginean and Precupețu, 2010). The erosion of the trust in people decreases the solidarity.

**Chart 33. Satisfaction with life and the optimism in some EU countries<sup>24</sup>**

Source: Eurobarometer, EB72 (August-September 2009) and EB74 (August-September 2010)

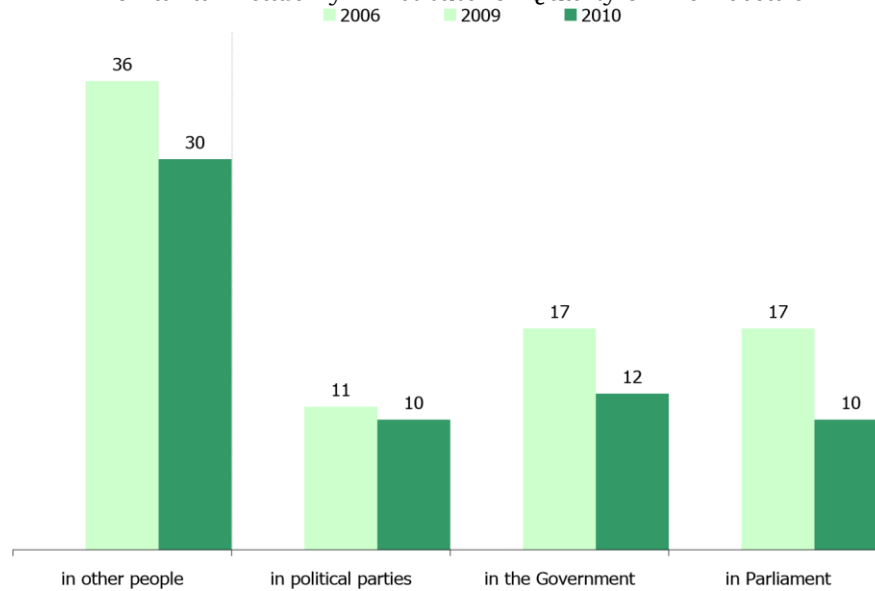
**Table 6 Dynamics of the evaluation regarding (percentage of answers)**

The possibility to influence the way the country is governed					The way the country is governed				
	1990	1999	2006	2010		1990	1999	2006	2010
Low and very low	60	91	86	91	Bad and very bad	19	77	49	80
Satisfactory	22	5	10	7	Satisfactory	39	16	33	16
High and very high	15	1	2	2	Well and very well	40	6	17	4

Source: IQLR, *Diagnosis of the Quality of Life in Romania 2010*

Note: the differences to 100% is non-answers

**Chart 34 Trust of the Romanians<sup>25</sup>, (% of the people declaring that they trust)**



Source: IQLR, *Diagnosis of the Quality of Life in Romania 2010* for the trust in people; EB 73.4 May 2010 and EB 72.4 October-November 2009 for the trust in institutions

## Chapter 6. Choosing a policy, what kind of Romanian society will we choose ?

*Which is the effect of a policy of the minimal state for the small countries or for the countries with modest economic development, such as Romania? Otherwise said, how would Romania risk to look like if such policy would be applied?*

1. The Romanian economy, even if it financially balanced, will remain a poor economy, with no strategic resources for sustainable development, highly vulnerable to an increasing competitive and polarized world economy.
2. The employment opportunities will remain low, dominated by the jobs with low qualification and with utterly low wages. The job will become uncertain and always conditioned by the discretionary power of the employer.
3. Because of the underdevelopment of the Romanian economy and because of the policy of the minimal state, the budget will be chronically underfinanced and it will have a low capacity to achieve its functions of support of a sustainable economic and social development.
4. Although member of the European Union, Romania runs the risk to be increasingly marginalized economically and politically. The Economic polarization in Europe is already a fact. Furthermore, there is the risk that the UE cancels its program to create homogenously developed European economies. Within this context, the useless attack to the *social state* will raise curiosity among the European states, in the best case.
5. A society cleaving towards two poles:



- x The current economically productive class, supposedly having a reasonable welfare, will also polarize into a prosperous segment, while the bulk of it will be at the boundary of poverty because of the policy of low wages; it will have an uncertain future, on the background of a system of social insurance submitted to a continuous policy of erosion;
  - x The rest of the society will get even poorer. The supposedly “parasitic” class, which might include half of the population, consist of the active population with no employment opportunities or which subsists under precarious and fluctuating conditions, next to the elder whose pensions are eroding rapidly and to the elders with no pensions at all.
6. Chronicization of poverty for a segment of the population which has fallen below the limit of the mere subsistence. The *minimal guaranteed income*, considered as the last safety net, besides the fact that it exceeds by far the lowest level of the human dignity, also has increasingly wider holes because of the fluctuating financing.
  7. The Roma population has a special situation. Most of it, increasing, is confronted with a complex of problems – economic, educational, cultural, discriminatory practices – under the conditions in which the policy of support, increasingly necessary, is jammed by the lack of vision and coherence, mostly.
  8. The basic social services, education and health care, are eroded by humiliating wages for the dignity of these professions and by underfinancing. The continuation of the policy to transfer the basic social services from the public system to the private system will inevitably lead to the polarization of their quality and to a fast decrease of the access of the poor and medium segments to quality educational; and health care services. The result will be, if not a consistent degradation of the educational and health state, then at least a higher gap between Romania and Europe.
  9. The risk of an explosive increase of the crime rate, including corruption, stimulated by the degradation of the social control, altered by the process of politicization of the public institutions, with a police with no credit and underfinanced, paralyzed as all the other social systems.
  10. A poorly efficient political system, blocked by the ongoing struggle for the decreasing economic and public resources.
  12. Demoralization: frustrating state of impotency after a Revolution full of promises.
  13. Civic passiveness, generated by the distrust in the possibility that the opinions and interests of the population are taken into consideration, parallel with the escalation of the social tensions and conflicts that may end in bursts of violence.
  14. Restoration of the old state of fear. The increasingly consistent suspicion that the power uses for repressive purposes the institutions which have been created with the purpose to defend the citizen and to ensure a state of normalness.

15. A deeply divided society, politically and morally, with a decreasing level of social solidarity, distrust in the public institutions and the other people, including of the Romanian people in itself.
16. In case of natural or social catastrophes, Romanian will have a lower and lower capacity of reaction, with difficulties of mobilization of the collective resources.

The political strategy of the transition and post-transition is accountable for the current state of the economy and society (Zamfir, 2004). The inevitable social costs of the transition have been exceeded substantially by the avoidable social costs.

## Notes

<sup>1</sup> Press release of the Romanian President, Traian Băsescu, on 6 May 2010, transcript available at [www.presidency.ro/media](http://www.presidency.ro/media)

<sup>2</sup> The number of employees decreased from an annual average of 5,046 thousands people in 2009 to 4,146 thousands people in November 2010, cf. INS, Statistical Yearbook of Romania 2010 and BNR, Monthly reports 2009-2010

<sup>3</sup> IMF and the European Commission made available a package of financial assistance for the Central and South Eastern Europe countries amounting to 52 billion euro, cf. CE 25/09/2009. European Bank Coordination Meeting: international coordination helped avert a systemic bank crisis in Central and Eastern Europe, press release IP/09/25. BERD, the World Bank and BEI have launched a *Joint Plan of Action of the International Financial Institutions*, by which the three organisations undertook to participate with another 19 billion euro, cf. BERD, BEI & BM 27/01/2009. Communiqué: Joint IFI Action Plan In Support of Banking Systems and Lending to the Real Economy in Central and Eastern Europe.

<sup>4</sup> By the end of 2009, the medium and long-term debt of the Ministry of Public Finances towards IMF was 934 de million euro, cf. BNR, Monthly Bulletin 2010

<sup>5</sup> Statement of the Ministry of Labour Ioan Nelu Botiş on 19 November 2010, cited by Mediafax, available at <http://www.mediafax.ro/social/botis-codul-social-reduce-numarul-de-prestatii-sociale-dar-si-numarul-beneficiarilor7733232>

<sup>6</sup> Cf. BNR, Monthly Reports 2007-2010; at the end of 2002, the Romanian state, through the Ministry of Public Finances, had a debt of 6.04 billion euro, and 6 years later the debt amounted to 9.03 billion euro; the proportion of the public debt within the GDP decreased because the GDP increased much faster, from 48.6 billion euro in 2002 to 139.8 billion euro in 2008 (equivalent at the average exchange rate of those years)

<sup>7</sup> Calculated according to the data from the Statistic Yearbook of Romania 2009, BNR monthly bulletin 12/2009, 12/2010 and MFP Bulletin 12/2008, 12/2009, 12/2010. Unfortunately, there are not yet available any comparable international data for 2010

<sup>8</sup> Data source is Eurostat. Unfortunately, no data is yet available for 2010

<sup>9</sup> EUROSTAT 2011. European economic statistics 2010.

<sup>10</sup> The term of dissent, with the significance of difference of opinions, was introduced as opposite to consensus; the term dissent refers to a diversity of opinions previous to the social confrontation. The terms of disagreement or dissension refer only to the subsequent situation when the differences of opinion are confronted within social relations.

<sup>11</sup> German political and state personality, Chancellor of Prussia (1862-1871) and then of the German Empire (1871-1890) <sup>12</sup> British political and state personality, Prime Minister of the United Kingdom (1868, 1874-1880)

<sup>13</sup> Ronald Reagan, discourse at the investment in the function of USA President, January 1981, available at [www.reaganfoundation.org/pdf/Inaugural\\_Address\\_012081.pdf](http://www.reaganfoundation.org/pdf/Inaugural_Address_012081.pdf)

<sup>14</sup> Recurrent statement in the speeches of Margaret Thatcher; one of her first statements, from the period of opposition, less than one year after becoming leader of the Conservative Party, is available at <http://www.margaretthatcher.org/document/102939>

<sup>15</sup> Discourse of the President of Romania, in front of the Parliament, on 21.09.2010, available at <http://www.cdep.ro/pls/steno/steno.stenograma?ids=6893&idm=2&idl=1>

<sup>16</sup> Discourse of Crin Antonescu at the League of the local elected from 4.11.2010, available at <http://aliantadreptei.wordpress.com/2010/11/06/discursul-sustinut-de-presedintele-pnl-la-congresul-ligii-alesilor-localibrasov-5-noiembrie-2010>

<sup>17</sup> Evaluations according to INS, Statistical Yearbook of Romania 2001-2009

<sup>18</sup> The difference is even higher if we take into consideration that for 1989 we related the net minimal wage to the average wage, and then we only used the *gross* minimal wage, which is higher than the net one.

<sup>19</sup> It includes illegal activities which define the informal economy and legal activities, but not declared.

<sup>20</sup> The unemployment benefit refers to the monetary rights of the people who have paid social insurances for unemployment when they were working. Initially, the unemployment benefit was thought to be at a level close to the wage at the lost job in the attempt to maintain the economic status of the person during the transition period to another job. <sup>21</sup> Calculated on the basis of the available monetary incomes.

<sup>22</sup> The document has been signed on behalf of the Romanian Government by the Ministry of Labour in June 2005.

<sup>23</sup>

The study relies on the *Diagnosis of the Quality of Life in Romania*, periodical survey conducted by IQLR on a national sample. <sup>24</sup> Text of the question: Satisfaction with life: Taking into consideration the whole situation, how much satisfied are you with your life? Please use a scale from 1 to 10, where 1 means “very unsatisfied” and 10 means “very satisfied”. Optimism: Please tell us whether you fully agree, agree, disagree or fully disagree with the statement: I am optimistic about the future.

<sup>25</sup> Text of the question about the people: Generally, do you think that you can trust most people? You can trust most people 2. You cannot trust most people. About the institutions: For each of the following institutions, please tell us whether you tend to have trust or you tend not to trust them: political parties, government, the Parliament.

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INS/Tempo - <http://www.insse.ro>  
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MMFPS - <http://www.mmuncii.ro>  
UNICEF/MONEE - <http://www.unicef-irc.org> – Transmonee

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