Theoretical and Applied Economics
Volume XXVII (2020), No. 3(624), Autumn, pp. 5-20

Social protection systems and economic growth

Dorina GHEȚAN
Bucharest University of Economic Studies, Romania
dorygh@gmail.com
Ada PAIERELE
Bucharest University of Economic Studies, Romania
paierele.ada@gmail.com

Abstract. *Social protection is one of the many social policy interventions that can contribute to achieving the overall goal of poverty reduction, also having a significant economic and social impact. This article mainly aims to examine how social protection systems address certain societal issues in order to contribute to the general well-being. Also, using a panel data model, our paper measure the impact of social protection expenditures, economic growth and income inequality on poverty rate among five Central and Eastern European countries: Romania, Bulgaria, Czech Republic, Poland and Hungary.*

Keywords: social policy, economic growth, income inequalities, poverty.

JEL Classification: H53, I30, O11.

Introduction

In all countries – or at least in the economically advanced ones – the state, in addition to its other responsibilities, is committed to ensuring social protection. In other words, they must protect their citizens against certain risks that threaten their well-being, such as unemployment, or incapacity. It also undertakes to provide pensions for the elderly to support them in the inactive period of their lives.

Social protection is one of the many policy interventions that can help achieve the overall goal of poverty reduction. Its positive impact is constantly growing and is due to the way it influences economic growth, especially in terms of protecting and increasing productivity and labor force participation among poor households. Although social protection programs can be evaluated for their impact on economic growth, it is important to remember that the main objective of social protection is to address poverty, vulnerability, and inequality.

Assessing the impact of social security can be done at the social level: its' positive or negative contributions on social progress, or at the economic level: the impact of social protection on economic growth. A method of synthesis is the analysis of socio-economic impact. A strategic direction is the one who highlights the positive consequences but without ignoring the others. Beyond the issues related to the financial sustainability of social protection, the issue regarding reconciling redistribution with economic competitiveness is at the center of the current questions of the evolution of social security programs.

Do the costs and methods of financing social systems cause problems of competitiveness or low economic growth? Especially in times of crisis, social protection is considered from two points of view: as an absorber of shocks caused by the crisis and as a potential buffer for economic recovery.

Before the scientific considerations of the effects of social security programs on the economy, a general presentation of the socio-economic developments is needed. Several developments highlight the global social and economic consequences of social assurance.

In doctrine terms, social security is increasingly conceptualized and supported not only as a tool to face crises but, more fundamentally, as a tool for social investment in increasing people's inclusion and well-being.

Among the main achievements of social security is the reduction of extreme poverty, with the perspective of a possible eradication, being one of the most important positive socio-economic consequences of social protection.

Following these trends, the assertion of the middle class in the world is one of the main results and challenges of social security. With their relative erosion in the West and their expansion, maybe slower than expected, in emerging countries, the middle classes have been supported by social security and continue to hope for new support.

In the context of these global developments, we need to consider the outcome and socio-economic impact of social security. The subject becomes more technical, but of particular importance, when we need to identify the causal relations and the links between social security and economic growth.

In this case, measuring the impact of social security cannot be done exclusively through the financial channel that influences the macroeconomic balance sheet. There are various benefits offered by social security, more or less favorable to growth, competitiveness and employment.

The importance of public spending, especially in the social governance program, is reflected through the fact that social protection expenditure consists of healthcare payments, insurance and pensions, and the services and social aids (Adema et al., 2011). However, the effects of social protection spending of governments on long-term economic growth are unclear, with two opposing views.

On the one hand, the benefits of these programs may discourage people to work. Because of the decrease in the volume of workforce provided in the economy, the level of production and, in certain circumstances, the level of capital investment and therefore, economic growth may decrease.

On the other hand, social protection spending can make a positive contribution to economic growth, as individuals are insured against disease and the risk of unemployment and become more productive and motivated to work (Arjona et al., 2002). These two opposed suggestions keep the doors open regarding the debate on whether social protection is an expense or an investment.

Opponents of this approach mention the limits of social security: discouraging work, splitting generations, budget deficits. The supporters emphasize its performance: increasing life expectancy, reducing inequality, improving population health, cushioning the effects of economic crises. Some people consider social security a locomotive of economic progress and growth, while others criticize it as an obstacle to competitiveness:

“The myth of the ‘socially assisted who does not want to work’ tells us that jobs are there, the offers are decent, but the beneficiaries simply do not want and no one knows what to do. In reality, beneficiaries may not qualify due to poor education, the jobs may not be where the beneficiaries are or the infrastructure may not allow the beneficiary to get where the job is. These aspects complicate the image of the beneficiary, who becomes a person in a situation of vulnerability with multiple and systemic causes, out of his control, not a socially assisted who doesn't want to work” (Cernat and Vasile, 2018).

However, it seems that this debate is cyclical and always further research could bring important contribution to an approach or another.

Our paper primarily examines how social protection systems address certain societal issues in order to contribute to the general well-being and presents the main functions of social protection schemes. Secondly, an important part of the paper is the analysis of the relation between social protection systems and economic growth, as it is treated in the literature.

Third, we want to emphasize – by using a panel data model –, the impact of between different independent variables, as social protection expenditures, economic growth and income inequality towards poverty rate, selected as dependent variable.

1. Social protection. Theoretical approach

There are many definitions of social protection. Most of them focus on policies and programs aimed to reduce poverty and vulnerability by promoting efficient labor markets, reducing people's exposure to risks and increasing people's ability to protect themselves against income minimization/loss.

The UK Institute for Development Studies proposed a definition in which it identified three target groups – poor, vulnerable, and marginalized – with distinct social protection needs (HLPE, 2012). Social protection consists mainly of social security and social assistance programs. Social insurances include support programs for the elderly and those who are temporarily out of the labor market. Social assistance programs target poor, vulnerable, and disadvantaged groups to improve their standard of living.

The notion of “social protection” refers to all collective provisioning mechanisms that enable individuals or businesses to cope financially with the consequences of social risks, leading to a decrease in resources and/or an increase in expenses (Joakim, 2001).

It was conceived as a political response to risk, a human right and an agenda for building livelihoods. However, social protection is generally described as a set of public and private mechanisms that protect and prevent individuals and households from suffering from the severe consequences of shocks and stress. Almost any public intervention could be considered, more or less, a part of the social protection system.

According to the European Report on Development (2010), social protection is a specific set of public actions that target the vulnerability of the population through social security, providing protection against risks; through social assistance, providing support to the poor and through social inclusion efforts that increase the capacity of marginalized people to have access to insurance and social assistance.

One of the most common concepts in all definitions of social protection is “vulnerability”. Vulnerability is a central concept in the World Bank's definition (Vulnerability: A View from Different Disciplines, 2001), but it is also a central issue in other definitions found in the literature. It can be defined according to the level approached:

- At the macro-level, vulnerability targets countries or regions that are likely to suffer frequent external shocks and have low resilience and limited response capacity.
- At the micro-level, vulnerability refers to small communities, households, and individuals facing shocks. As defined by Alwang et al. (2001, p. 5), *“a household is considered vulnerable when it risks losing some of its welfare below socially accepted norms, caused by risky events. The degree of vulnerability depends on the characteristics of the risk and the ability of households to cope”.*

The social protection system can be considered as a tool of the state that helps people to achieve their most important projects, such as the chance to receive the education that will allow them to find a job, then to find that job; the possibility of starting a family and associating family life with participation in the labor market and society in general; economic security in case of unemployment or illness; the existence of retirement at the right time; finally, the possibility of receiving social services and the necessary care when physical abilities decrease.

2. The relationship between equity and economic growth. Theoretical approaches and empirical evidence

If we talk about economic development or growth, economists usually include more than a simple increase in real GDP. Determining in a more broad way the growth of incomes of the population of the country as a whole, including an assessment of the well-being of society, become central concepts in measuring the level of economic development.

Poverty reduction, the reduction of social polarization in society, and the achievement of social justice are very closely and complexly linked to economic development, but these issues are often excluded from discussions on economic growth issues. Thus, the development of a social protection system that prevents or mitigates the effect of negative shocks on individuals' well-being should be considered a key objective of improving society's well-being.

There is a close relationship between economic growth and social progress, because economic growth is the basis of social progress, having a direct impact on the development of human society by increasing the forces of production. In any society, economic growth multiplies the material elements and creates conditions for society's social development.

Beginning in the last quarter of the eighteenth century, A. Smith formulated, though not directly, the principle that the continuous accumulation of wealth is the most important element of the development of society, its main driving force and a necessary condition for social development. He highlighted that *"No society can truly flourish and be happy if most of its members are poor and unhappy"* (Smith, 2011, pp. 139-140). Such an approach shows that the goal of economic growth is not the economic achievement itself, but ultimately, society. This is specifically reflected in creating conditions for human development.

Helpman names three channels through which inequality within the country affects economic growth (Helpman, 2004). First, inequality accelerates growth, because the tendency to save on profits is higher than on wages. Consequently, the redistribution of income from wages (from the poor) in favor of profit (to the rich) increases total savings and thus accelerates growth.

Second, inequality inhibits growth, because the poor, due to capital market restrictions, have more limited access to credit. Significant inequality, from the point of view of the property, reduces aggregate investment because the poor cannot participate in profitable investment projects.

Third, inequality slows economic growth because the average voter prefers redistribution of income (because, as a rule, the average income is below average). At the same time, redistribution is made from taxes, with a substantial distorting impact. Therefore, a high tax economy will grow more slowly. Also, inequality has a negative impact on growth through the limited access of the poor to education and, as a result, the declining quality of human capital, as well as the inability to make responsible policy decisions in polarized societies (Krugman, 2009).

The impact of social protection on economic growth has divided theorists. Overall, the conclusions that can be drawn from these theories do not allow us to form a clear opinion on this issue. A first thesis, initiated by Mirrlees (1971) as part of a reflection on optimal taxation, highlights a negative effect of social protection on economic growth. Social transfers could reduce labor supply and, therefore, the labor resources on which economic growth is based, as beneficiaries are no longer stimulated to look for a job.

In addition, these benefits are offset by the introduction of a tax system that can slow down savings and, respectively, investment – the source of economic growth. Other theorists have the same opinion, such as Vanhoudt (1997), Gwartney, Lawson and Holcombe (1998), Atkinson (1999), Milanovic (1999), Tabellini (2000), Cassamatta et al. (2000).

On the other hand, social protection spending will make a positive contribution to economic growth, as individuals are insured against disease and the risk of unemployment and become more productive and motivated to work (Arjona et al., 2002). These opposed opinions still provoke debates as to whether social protection is an investment with multiple benefits or a waste of public money with negative effects on employment, economic growth, human capital development, etc.

There are various counter-arguments regarding these negative conceptions of social protection. First, by avoiding the marginalization of the poorest and their sustainable exit from the productive system, social protection strengthens the potential for growth. Second, limiting social tensions creates a favorable climate for political and economic decision-making, which can improve prospects for sustainable development (Sala-i-Martin, 1996).

Finally, market mechanisms are inefficient in certain situations, in particular the insurance against job loss and income, in this case social protection plays an important role. By covering a number of risks, it can encourage entrepreneurship and the development of certain investments, such as those in new technologies (Ahmad et al., 1991; Alesina and Rodrik, 1994; Imrohoroglu et al., 1995; Easterly and Levine, 1997; Hubbard and Judd, 1987).

Bellettini and Ceroni (2000) have analyzed the relationship between social security spending and economic growth based on 61 countries. They found out that whenever there is a statistically significant association between social security spending and growth, it has a positive sign. In addition, the positive estimated coefficient of social security expenditure appears robust to various forms of wrong specifications and seems to be higher in relatively underdeveloped social security systems (poor countries).

Regarding the channels through which the positive effect of social security expenditure on growth should take place, the results seem to indicate that these expenditures have a positive influence on the formation of human capital. Recently, similar evidence is provided by Zhang X. and Shenggen Fan (2004). Thus, even from a theoretical point of view, the relationship between social security spending and economic growth is not clearly negative.

However, S.P. Huntington (1968) argued that periods of rapid growth could increase socio-political instability in the absence of a flawless social security system. This could trigger a deep social conflict that could harm economic activities.

An empirical study of the impact of social protection on economic growth, conducted by Arjona, Ladaique and Pearson (2002) estimate an equation of economic growth based on annual data from 21 OECD countries and covers the period 1970-1998, the theoretical approach being inspired by Bassanini et al. (2001). The results obtained by them show that if social spending increases from 18.5% of GDP to 19.5%, GDP can be reduced in the long run by 0.7%.

Estimates suggest that increasing active social spending from 0.63% of GDP to 0.73% of GDP would lead to a long-term GDP growth of almost 1%. The estimate of the "passive" component suggests that if this one were to increase from 20.7% to 20.8% of GDP, it would lead to a long-term reduction in GDP of 0.2%. We can see that the effect on growth differs depending on whether social spending is "active" or "passive".

The estimates presented in this study indicate that an increase in "active" spending (i.e. social spending that influences the distribution of market income by promoting employment of a lower-than-normal part of the population) goes hand in hand with stronger economic growth, while other social spending slows growth.

Economic growth is the main driver of prosperity in both poor and rich countries. There is no doubt that growth is essential – if not enough – for poverty reduction. However, the nature of growth – meaning the extent to which the poor benefit and participate in growth processes – is extremely important (Wiggins and Higgins, 2008).

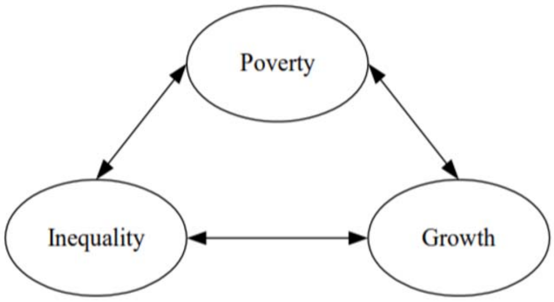
Although it is tempting to consider, for the sake of clarity, that social spending is either fully active or fully passive, things are actually more complex. Most social spending is not exclusively active or passive. They can be mainly *active*, with passive elements in their composition (such as a labor market scheme that ensures income security and at the same time give to the beneficiaries the right to unemployment benefits); they can be mainly *passive*, but also include certain active elements (such as a money transfer system and the obligation to look for a job).

Because most of the social schemes fall between these two extremes – active and passive – any distinction between active and passive spending is somewhat arbitrary. The narrowest definition of "active" social spending is to link exclusively to active labor market policies. They are generally intended to help the unemployed find and keep a paid job. They can take various forms: vocational training programs, job search assistance, reintegration services for disabled workers and wage subsidies.

In Todaro's "Economic Development" (1995), the opportunity to equalize the level of income distribution between high-income and low-income groups in developing countries is analyzed. The author justifies his position by the fact that a more uniform distribution of income in developing countries will contribute to the early development of such economic resources of society as labor and capital, which, in the author's opinion, will create the premises targets for higher economic growth in these countries.

The interactions between poverty, growth and inequality can be represented by a set of two-way links. This analytical framework called the "inequality-growth-poverty triangle" was popularized by former World Bank chief economist Francois Bourguignon (2004) and is represented in Figure 1.

Figure 1. *The relationship between growth, poverty and inequality*



Source: Bourguignon (2004).

Poverty reduction strategies have traditionally focused on economic growth as the main policy of state action. Namely, economic growth implies a higher average income of the population, which, in turn, has an impact on poverty reduction.

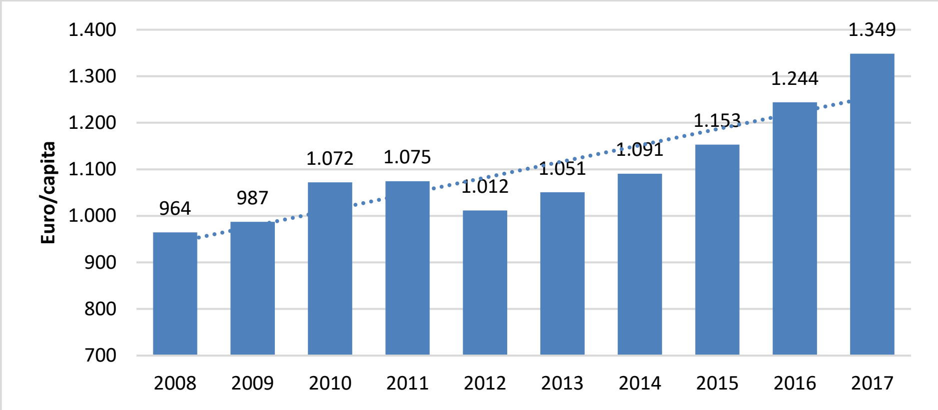
However, recent studies show that income distribution is a key factor in reducing poverty. In conclusion, faster growth usually leads to absolute improvements for all, including the poor, while greater equity implies a relative improvement for the poor.

Indeed, the relationship between social security spending and growth is complicated and confusing. As the discussion above explains, the effect of social security spending on growth is still an open question both theoretically and empirically.

3. Empirical evidence. Presentation of social protection expenses per capita: Romania vs. other EU countries

For a more detailed analysis of the social protection system in Romania, we analyzed the evolution of the related annual expenditures, expressed in euros per inhabitant, for the period 2008-2017. According to the data provided by Eurostat, an upward trend is observed for the entire analyzed period. Thus, the Romanian state has allocated increasing amounts, giving significant importance to people at risk of poverty and/or social exclusion. If in 2008 the state allocated approximately 964 euro/capita annually, then in 2017 this amount was 1,349 euro/capita.

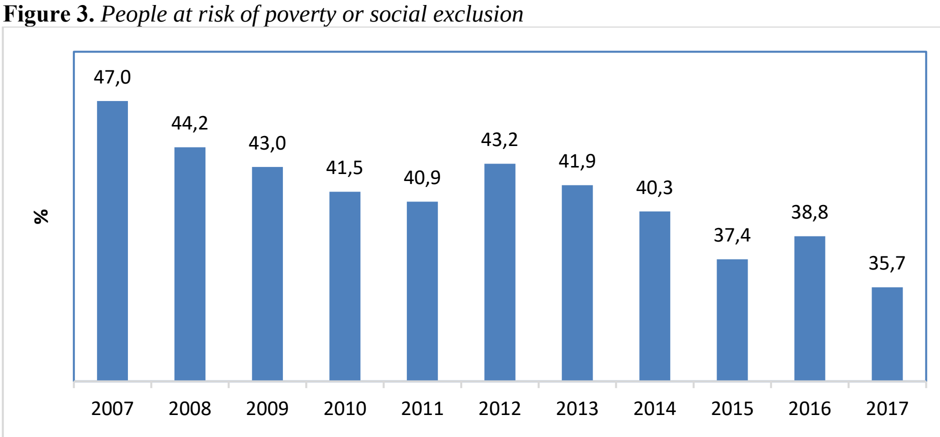
Figure 2. *Evolution of social protection expenditures in Romania (euro per capita)*



Source: Eurostat.

In order to assess the impact of social spending, we also presented the evolution of the share of people exposed to the risk of poverty and social exclusion. In Romania, the poverty rate varied significantly compared to 2007, according to the chart below. Although the poverty rate decreased by 6.1pp between 2007 and 2011, it had an upward trend in 2012, followed by a decrease until 2017. As a result, the decline in poverty between 2007 and 2015 was 9.6 percentage points, representing 2,605,000 people living out of poverty.

Figure 3. *People at risk of poverty or social exclusion*

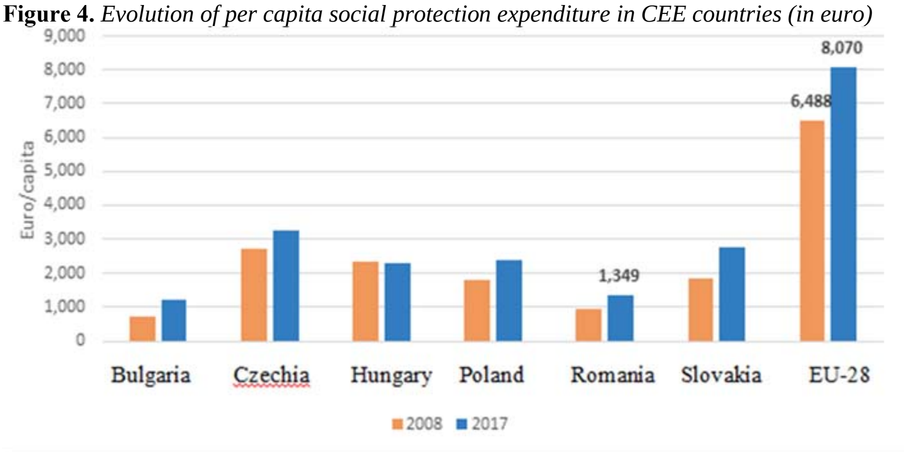


Source: Eurostat.

Therefore, we can say that as social spending increases, the number of people exposed to poverty and social exclusion decreases.

It is important to see Romania's position compared to other states in Central and Eastern Europe in order to have an overview of the importance given to the social system. Naturally, there are major differences between states, starting with the size, population, type of taxation (single rate or progressive taxation) and the amount of taxation, as well as the amounts allocated to social protection. Following the expenses related to social protection, we find a positive evolution (2016 compared to 2008) for all states, except in the case of Hungary (a decrease by over 100 euro/capita).

Figure 4. *Evolution of per capita social protection expenditure in CEE countries (in euro)*



Source: Eurostat.

Comparing the amounts allocated by the CEE states with the EU28 average, it is obvious that they are much lower than the European average. The Czech Republic holds the best position, allocating about half of the EU average. Romania occupies the last but one place, standing with about 137 euros over the last ranked, Bulgaria, in 2017.

According to the table below, the previously announced hypothesis that countries that allocate higher amounts to social protection have higher poverty risk reduction rates is confirmed. We can see that the Czech Republic, Slovakia and Poland – the top 3 countries with the highest expenditures, also record the highest degree of poverty reduction for 2016.

An exceptional case is Hungary, which although compared to 2008 has reduced its social spending, however managed to reduce the risk of poverty the most, the gap being 11.3% after transfers. Nor can we overlook the fact that by allocating an amount approximately equal to that of Poland, Hungary has reduced the risk almost twice.

Table 1. *Poverty reduction in CEE countries, 2017*

	Poverty reduction			
	Social protection expenditure/capita in euro	Before social transfers	After social transfers	The risk gap
Poland	2412	24	15	-9
Czech Republic	3259	15,8	9,1	-6,7
Slovakia	2751	17,5	12,4	-5,1
Hungary	2317	25	13,4	-11,6
Romania	1349	28,3	23,6	-4,7
Bulgaria	1211	29,2	23,4	-5,8
EU28	8071	25,6	16,9	-8,7

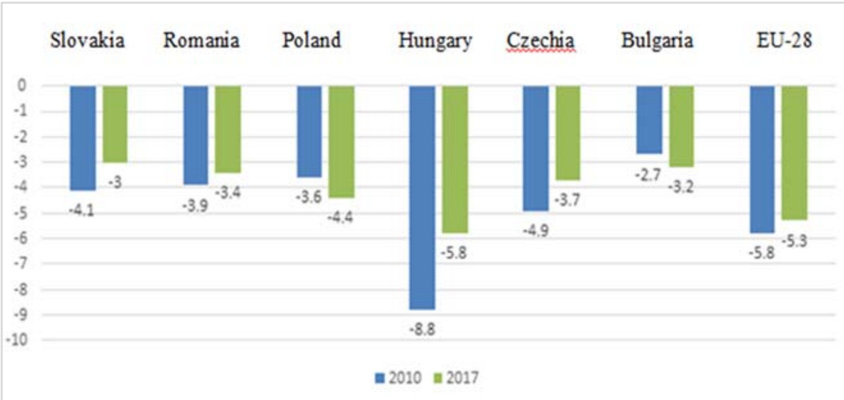
Source: Eurostat.

Analyzing the situation in Romania, we find that in 2017 the risk of poverty after social transfers decreased by 4.7 percentage points, being the last ranked among CEE countries. We must mention that, although Bulgaria allocates less funds to social protection compared to Romania, it has managed to further reduce the number of people at risk of poverty. This could mean better resource management. In 2017, according to Eurostat, the Gini coefficient after social transfers is equal to 34.7% in Romania, being higher than the

European Union average (30.8). Therefore, Romania is less egalitarian than the average at this level. Its coefficient, among the CEE countries, is between that of Poland (29.8%) and that of Bulgaria (37.7%).

The comparative analysis of the Gini coefficient between the CEE states allows us to observe the level of reduction of income inequalities before and after social transfers. This highlights the positive effect of social transfers on the income of the population and on reducing the gaps between social classes.

Figure 5. *Reducing inequalities through transfers*

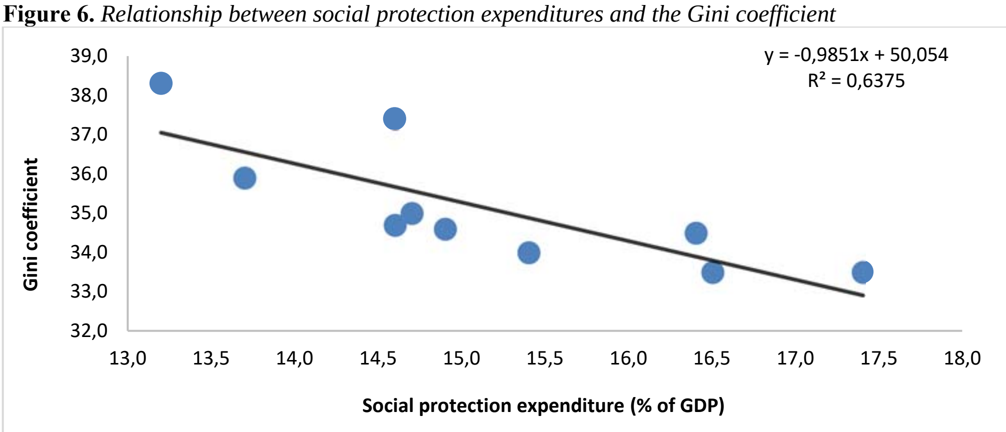


Source: Eurostat.

In order to establish its connection and relevance regarding social protection expenditures and income inequality in Romania, measured by the Gini coefficient, an econometric analysis was performed using simple linear regression. Thus, it is observed that there is an impact of social transfers on socio-economic inequality, i.e. there is a link between social spending as a percentage of GDP in Romania and income inequality measured by the Gini index.

This can be seen in the graph below, where the coefficient of determination $R^2 = 0.6375$, which indicates a relatively strong link between the two variables – 59.22%.

Figure 6. *Relationship between social protection expenditures and the Gini coefficient*



Source: Eurostat, own processing.

Furthermore, a panel data model was built to track the effects on the poverty rate among five Central and Eastern European countries: Romania, Bulgaria, the Czech Republic, Poland and Hungary.

In this model, the poverty rate was the dependent variable, while the explanatory variables were selected GDP per capita expressed in current prices, income inequalities measured by the Gini coefficient and social protection expenditures. In addition, the poverty rate from the previous period was also included as an independent variable, considering that poverty is transmitted inertia and that it has an impact on the current poverty conditions.

The database used was Eurostat, covering 2005-2019 period. The econometric results were obtained using Eviews 8 program.

Estimation equation

Log(Poverty) = C(1) + C(2) × Log(Poverty(-1)) + C(3) × Log(Gdp_Per_Capita) + C(4) × × Log(Gini) + C(5) × Log(Cheltsoc) + error term

The estimated results are presented in the table below.

Dependent Variable: LOG(POVERTY)
Method: Panel Least Squares
Date: 05/18/20 Time: 20:08
Sample (adjusted): 2006 2019
Periods included: 14
Cross-sections included: 5
Total panel (balanced) observations: 70

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.047033	0.444489	-0.105815	0.9161
LOG(POVERTY(-1))	0.769642	0.051590	14.91838	0.0000
LOG(GDP_PER_CAPI...	-0.129282	0.050671	-2.551417	0.0131
LOG(GINI)	0.365280	0.102757	3.554787	0.0007
LOG(CHELTSOC)	0.091334	0.038770	2.355789	0.0215

R-squared	0.954640	Mean dependent var	3.208578
Adjusted R-squared	0.951849	S.D. dependent var	0.202180
S.E. of regression	0.044365	Akaike info criterion	-3.323976
Sum squared resid	0.127937	Schwarz criterion	-3.163369
Log likelihood	121.3392	Hannan-Quinn criter.	-3.260181
F-statistic	341.9962	Durbin-Watson stat	2.015291
Prob(F-statistic)	0.000000		

Source: Authors prelucration using Eviews 8.

Replacing the coefficients obtained in the constructed model we will have:

Log(Poverty) = -0.047 + 0.769 × Log(Poverty(-1)) – 0.129 × Log(Gdp_Per_Capita) + + 0.365 × Log(Gini) + 0.091 × Log(Cheltsoc)

The results obtained with the help of the model applied to this period of time show some important things. First, there is a negative, albeit small, impact-on-GDP relationship between GDP per capita and the poverty rate. An increase in average per capita income has led to a decrease in the poverty rate in the selected countries.

Secondly, it is observed that the poverty rate depends largely on the previous situation, which is transmitted in a proportion of almost 77% to the current state of poverty. Likewise, an important role is assigned to income inequalities, noting that at an increase of 1 p.p. of the Gini index, the poverty rate will increase by 0.36-0.37 percentage points.

It was also found that social protection expenditures do not have a negative impact on the poverty rate, but a positive one, even if below 0.1 pp. Here an explanation could be related to the inefficient intervention through social protection systems (especially in Romania and Bulgaria), but also to the fact that in these economies GDP per capita increased in average, but the median income increased more slowly, that is translated into a greater share of individuals below the monetary poverty threshold.

4. Conclusions and recommendations

One of the most debatable questions among decision-makers about the reduction of poverty is whether we need to worry about the distribution or we let that growth work. Although there are powerful arguments, which support the theory that growth is good for the vulnerable people, it has been proved that growth achieved through redistribution is expected to deliver even better results.

According to our analysis, in Romania the link between social transfer expenses as a percentage of GDP and the socio-economic inequalities measured by the Gini Coefficient is inversely proportional. This means that higher social transfer will have a major impact on reducing inequalities and lower social transfers will generate greater economic disparities.

In addition, during the 2005-2019 period, we built a panel model among several Central and European Countries (Romania, Bulgaria, Czech Republic, Hungary and Poland) where it is observed that the poverty rate is low in GDP per capital, income inequality increases the poverty rate, while social benefits rather have no effect on the poverty rate.

While increasing inequality amplifies poverty, rising incomes reduces poverty. Furthermore, the elasticity of poverty against inequalities is almost three times higher than the elasticity of power compared to economic growth which could indicate that any insignificant changes in income distribution can lead to an important impact on poverty.

Poverty reduction cannot be achieved without long-term sustainable economic precondition such as: maintaining macroeconomic stability, improving the business environment and creating a favorable investment climate which will increase domestic and foreign direct investment.

However, the benefits of growth when it comes to poverty reduction will be increased if they are accompanied by policies which aimed a better distribution of income. Considering that many poor people are unemployed or they have limited access on the labor market, these policies should take into consideration ways to improve the employment opportunities.

In addition a better distribution could be achieved only through tax reforms and coordination of social policies that must target the vulnerable sectors of economy. This thing can be accomplished by increasing the transparency of any social programs making it easier for poor people to access the information.

In Romania, social outcomes have been significantly improved in the recent years. This has happened mostly because of the priority given to poor people who have better access to social programs and efforts which target better public spending on social programs for low-income beneficiaries. In this regard, same recommendations have been made as it follows:

- *More effective targeting social spending for the vulnerable people* – To improve public spending on social programs, further efforts are needed to reform social security. It is essential to ensure the long-term financial sustainability of the social security scheme for public and private sector workers in order to be able to allocate more money to pro-poor social assistance programs resources with which to ensure the social assistance program to protect health and also to make sure that Romania would be able to be prepared to cope with expenditure pressures on the relatively rapid aging of the population in the coming years.
- *Improving the coordination of intergovernmental policies* – The diversity of existing social programs, together with the decentralized provision of services, often result tin dubitation of initiatives and mandates and thus in increased costs. More attention should be paid to intergovernmental coordination in the design and implementation of social programs. Equally important in this regard is the strengthening of ongoing efforts to create a single register of beneficiaries of social assistance programs at different levels of government. This will not only facilitate the implementation of inter- and intra-governmental initiatives, but also will reduce administrative and service delivery costs, while facilitating the evolution of program and internal and social expenditure financed from public sector.
- *Focus on the regional dimension of social policies* – In Romania, social programs are generally standardized, despite the country's geographical heterogeneity. In addition, most existing social programs are not designed to address regional inequalities in human development. In this regard, funding formulas should make greater use of human development indicators to determine the distribution of allocations between different regional administrations.

In conclusion, in order to achieve its central objective of reducing poverty and social exclusion, the Romanian Government should continue its efforts to develop an inclusive society. This should be based on providing integrated social inclusion services, focusing on the real assessment of individual’s needs, by the development of the tertiary sector and by ensuring equal opportunities for all, with a special focus on vulnerable groups.

References

Adema, W., Fron, P. and Ladaique, M., 2011. Is the European Welfare State Really More Expensive? Indicators on Social Spending, 1980-2012; and a Manual to the OECD Social Expenditure Database (SOCX), OECD Social, Employment and Migration Working Papers, No. 124, OECD Publishing, Paris.

Ahmad, E., Drèze, J., Hills, J. and Sen, A., 1991. *Social Security in Developing Countries*, Oxford Scholarship Online, England: Clarendon.

Alesina, A. and Rodrik, D., 1994. Distributive Politics and Economic Growth, *The Quarterly Journal of Economics,* Vol. 109, Issue 2, May, pp. 465-490.

Alwang, J., Siegen, P.B. and Jorgensen, S., 2001. Vulnerability: A View from Different Disciplines, World Bank, June, SP Discussion Paper No. 0115, Washington, DC.

Arjona, R., Ladaique, M. and Pearson, M., 2002. Growth, Inequality and Social Protection, OECD Economic Studies No. 35, 2002/2.

Bassanini, A. and Scarpetta, S., 2001. Does human capital matter for growth in OECD countries? Evidence from pooled mean-group estimates, OECD Economics working paper No. 282.

Bellettini, G. and Ceroni, B.C., 2000. Social security expenditure and economic growth: An empirical assessment, *Research in Economics,* Vol. 54, Issue 3, September, pp. 249-275.

Bourguignon, F., 2004. The Poverty-growth-inequality triangle, Working Paper, No. 125, Indian Council for Research on International Economic Relations (ICRIER), New Delhi.

Branko, M., 1999. Do more unequal countries redistribute more? Does the median voter hypothesis hold?, Policy Research working paper, No. WPS 2264, Washington, DC, World Bank.

Casamatta, G., Cremer, H. and Pestieau, P., 2000. Political sustainability and the design of social insurance, *Journal of Public Economics,* Vol. 75, Issue 3, March, pp. 341-364.

Cernat, M. and Vasile, M., 2018. Perspectives on poverty in Romania. The impact of media discourse on people receiving social assistance on the legislative process, Friedrich Ebert Stiftung, Bucharest, December 2018.

Easterly, W. and Levine, R., 1997. Africa's Growth Tragedy: Policies and Ethnic Divisions, *The Quarterly Journal of Economics,* Vol. 112, Issue 4, pp. 1203-1250.

European Report on Development, 2010. Social protection for inclusive development.

Green, D. (Ed.), 2008. From Poverty to Power: How Active Citizens and Effective States Can Change the World, OXFAM International, Oxford, United Kingdom.

Gwartney, J., Holcombe, R. and Lawson, R., 1998. The Scope of Government and the Wealth of Nations, *The Cato Journal,* Vol. 18, Issue 2, pp. 163-190.

Helpman, E., 2004. *The Mystery of Economic Growth,* Harvard University Press, Cambridge, MA.

HLPE, 2012. Food security and climate change. A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security, Rome 2012.

HLPE, 2012. Report 4, June. Social protection for food security.

Hubbard, R.G. and Judd, K.L., 1987. Social Security and Individual Welfare: Precautionary Saving, Borrowing Constraints and the Payroll Tax, *The American Economic Review,* Vol. 77, No. 4. September, pp. 630-646.

Huntington, S.P., 1968. *Political Order in Changing Societies,* Yale University Press, London.

İmrohoroglu, A., İmrohoroglu, S. and Joines, D.H., 1995. A life cycle analysis of social security, *Economic Theory,* Vol. 6, pp. 83-114.

Joakim, P., 2002. Social protection and the fight against inequalities: The Scandinavian model, *L'Economie Politique,* Vol. 13, Issue 1, pp. 103-112.

Kim, B.S.K., Atkinson, D.R. and Yang, P.H., 1999. The Asian Values Scale: Development, Factor Analysis, Validation, and Reliability, *Journal of Counseling Psychology,* Vol. 46, No. 3, pp. 342-352, Yang University of California, Santa Barbara.

Krugman, P., 2009. Increasing returns in a comparative advantage world, *American Economic Review,* Vol. 99, No. 3, pp. 561-571.

Mirrlees, J.A., 1971. An Exploration in the Theory of Optimum Income Taxation. *The Review of Economic Studies.* Vol. 38, No. 2, April, pp. 175-208, Oxford University Press.

Sala-I-Martin, X.X., 1996. A positive theory of social security, *Journal of Economic Growth,* Vol. 1, pp. 277-304.

Smith, A., 2011. *The wealth of nations,* Publica, Bucharest.

Tabellini, G., 2000. A Positive Theory of Social Security, *Scandinavian Journal of Economics,* Wiley Blackwell, Vol. 102(3), September, pp. 523-545.

Todaro, M., 1995. Economic Development, Edward Elgar Publishing, No. 431.

Vanhoudt, P., 1997. An assessment of the macroeconomic determinants of inequality, SESO Working Papers 1997007, University of Antwerp, Faculty of Business and Economics.

Wiggins, S. and Higgins, K., 2008. Pro-Poor Growth and Development, Overseas Development Institute (ODI), Briefing Paper No. 33, January.

Zhang, X. and Fan, S., 2004. Public investment and regional inequality in rural China, *Agricultural Economics,* Vol. 30, Issue 2, March, pp. 89-100.