THE PERFORMANCE OF WELFARE SYSTEMS IN POST-COMMUNIST EUROPE: THE CASES OF ROMANIA AND BULGARIA

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Abstract
Understanding the welfare system and the sources of its performance has become a priority for social policy makers in Central and Eastern Europe. In contrast with the impressive literature on the economic transition from communism to capitalism in this part of Europe, the transformation of welfare and social policies after communism has remained largely unexplored. Moreover, while the research so far has focused mainly on the Visegrad states and the Baltic states, Bulgaria and Romania have attracted considerably less interest. Hence, important data and relevant studies on the latest EU members are still missing. This paper brings together key data available on the socio-economic performance of the two countries, with a view to acquiring an integrated understanding of the impact of various economic, social and political factors on the state of welfare provision in these countries. We identify here the specific features of the current social model that appears to operate in Bulgaria and Romania, in the broader context of comparing CEE and older EU members along key social welfare indicators. We then discuss the political context and welfare system developments in the two countries in the period of transition. Following this background, we analyse social welfare performance in Bulgaria and Romania using thirteen relevant indicators. The study concludes with an emphasis on the urgent need for a strategic rethinking of the social model in the region. In this context, based on past performance, a move away from a liberal 'minimalist' welfare state model is recommended.

East meets West, or still worlds apart? An examination of the state of social welfare in the CEE countries

In a recent paper (Neesham & Tache, 2010) we identified the main characteristics of the emerging East-European social model, or the "catching-up European submodel", as otherwise called in Socol, Marinaş & Socol (2010). To facilitate an adequate contextual understanding of Romania and Bulgaria, our study begins with a brief discussion of the economics and policy of social welfare in the Central and East European group of EU countries, which is comprised of the Czech Republic, Slovakia, Slovenia, Hungary, Poland, Estonia, Lithuania, Latvia, Romania and Bulgaria.

Some studies (Ferge 2001, Standing 1996) regard welfare states in Central and Eastern Europe (CEE) as developing within the liberal regime but based on a mix of social insurance and social assistance with a partial privatisation of social policy, with only a limited number of corporatist attributes. Others (Aidukaite 2004, Lelkes 2000) argue that this group represents a separate post-socialist regime type. Fenger (2007), for example, speaks about a "post-communist" European type, which seems to mix characteristics of both the conservative and the social-democratic types discussed by Esping-Andersen (1990)[1].

Looking within this group, with respect to the key organising features of the national welfare systems, two separate subgroups can be further identified. Countries like Hungary and Slovenia have practised an increase of the social protection expenses, while others, like the Baltic States, have kept them low. Based on this aspect, the CEE country group can be

[1] According to Esping-Andersen (1990) taxonomy, there are three welfare state categories: liberal, conservative-corporatist and social-democrat. In the liberal regime countries, state provision of welfare is minimal, benefits are modest and often attract strict entitlement criteria, and recipients are usually means-tested and stigmatised. The conservative welfare state regime is characterised by its 'status differentiating' welfare programmes, in which benefits are often earnings-related, administered through the employer and geared towards maintaining existing social patterns. The role of the family is also emphasised and the redistributive impact is minimal. The social democratic regime is the smallest regime cluster. In this case welfare provision involves universal and comparatively generous benefits, a commitment to full employment and income protection, and a strongly interventionist state, used to promote equality through a redistributive social security system.

divided into two subgroups: a 'self-reliance' subgroup (the Baltic states, Slovakia, Bulgaria and Romania); and a 'welfare' subgroup (the Czech Republic, Hungary, Poland, Slovenia). The social model adopted by the first subgroup displays neo-liberal features, whereas the second subgroup has more similarities with the Continental model (Neesham & Tache, 2010).

An integrated examination of the East European social model in the transition years reveals the following features: regularised labour markets, a still underdeveloped social dialogue and a low level of social security. Despite the dynamic economic growth rates registered by these new EU member countries until 2007 (much higher than those of the old EU states), they witnessed increasing social inequality and polarisation (see Table 1, which presents the Gini index for several years, based on available data). It seems that high growth rates are not sufficient for securing tranquility in social and political life. Moreover, under the constraints imposed by EU accession (for example, tough budget constraints resulting from convergence criteria), robust growth may be prevented from translating into equally robust social protection. According to Sapir (2005), EU enlargement promised prosperity for all and has so far delivered greater economic and social differences, which have slowed down the path to the single European market.

Table 1: Gini index of the Central and Eastern countries

	1988	1989	2000	2004	2007
Bulgaria		23.43			29.2
Czech Republic	19.4		25.0[1]		32
Estonia	22.97		37	36.029	35.8
Hungary		25.05	27.32	0.06	26.9
Latvia	22.49		34.0[2]	35.75	37.7
Lithuania	22.48		31.85	35.83	36.0
Poland		26.89	32.93		34.5
Romania		23.31	30.25		31.0
Slovak Republic	19.54				25.8
Slovenia	23.6[3]		22.0	30.94	28.4

Note: 1 = 2001; 2= 2002; 3 = 1987

Source: AMECO (Economic and Financial Affairs, Annual Macroeconomic Indicators online database)

The new EU members are also constrained to compete for investment. In doing so, they seek comparative advantage, first, by lowering labour costs, and this includes non-wage costs such as contributions to social security systems. Secondly, they make policy decisions on the rate of direct (corporate) and indirect taxation. For example, several states have adopted very low flat rates (e.g. 10 percent in Bulgaria), which puts pressure on revenue and social spending (Offe, 2010).

To give a more informed picture of the social Eastern Europe, it is instructive to analyse the structure of the redistribution systems of this group of countries as compared with the other EU members (Socol et al., 2010). The welfare state depends on the shares of the budget income and of the budget expenses in GDP, and its sustainability is given by the existence of a long-term budget balance, which is a necessary condition for avoiding increase in public debt. Table 2 shows all European social models ranked according to their disposition for redistribution in 1995, 2000 and 2008.

Table 2: Evolution of budget incomes and expenses within the European submodels[2]

	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)	Budget incomes (%GDP)	Budget expenses (%GDP)
Submodels/Years	**1995**	**1995**	**2000**	**2000**	**2008**	**2008**
Northern	52.66 (I)	59.86 (I)	52.44 (I)	49.34 (I)	51.22 (I)	48.95 (I)
Continental	47.08 (II)	54.50 (II)	48.28 (II)	48.24 (II)	46.51 (II)	47.96 (II)
Anglo-Saxon	38.09 (VII)	43.66 (VI)	40.05 (IV)	38.45 (VIII)	41.58 (IV)	47.13 (III)
Mediterranean	41.53 (V)	48.55 (III)	42.26 (III)	43.58 (III)	42.09 (III)	45.15 (IV)
Visegrad Group[3]	43.75 (III)	50.16 (III)	39.26 (V)	43.23 (IV)	40.31 (V)	43.31 (V)
Baltic States + Bulgaria	38.52 (VI)	39.12 (VII)	37.56 (VII)	39.31 (VI)	36.48 (VII)	38.35 (VIII)
Romania	33.80 (VIII)	35.90 (VIII)	33.80 (VIII)	38.50 (VII)	33.10 (VIII)	38.50 (VII)
Eastern and Central states	41.76 (IV)	46.90 (V)	38.31 (VI)	42.15 (V)	38.86 (VI)	42.09 (VI)
EU 27	45.20	52.40	45.40	45.20	44.50	46.80

Note: The Roman figures in brackets indicate the rank of the submodels, from the most redistributive ones to those which are less redistributive in the GDP.
Source: Eurostat (2009)

In the group of the CEE countries, with respect to the structure of the national redistribution system the table reveals again two distinct subgroups. The first subgroup is represented by the Visegrad countries, whose economies during the first years of transition resembled the Continental model, to then record more similarities with the Mediterranean model. The reduced levels of taxation practised in these economies led to a reduction in the budget incomes in the first phase, followed by a decrease in government expenditures. For the second subgroup, represented by the Baltic states, Romania and Bulgaria, indicators suggest a residual role of the state, similar to the Anglo-Saxon social model. Adopting the lowest taxes in the EU meant for these countries a reduction of the budget returns in 2008 as compared to 1995. All but Romania registered budget surpluses between 2002 and 2007, on the background of an average annual growth of 7 percent.

As long as massive foreign capital inflows entered these countries, an increased state intervention in the economy was not necessary. However, in the context of the global financial crisis, when the foreign resources diminished substantially, public expenditures and public investment had to be intensified, to cope with the economic recession.

Undoubtedly, the European social model suffered a transformation after the Central and Eastern enlargement. Although the welfare regimes of the CEE countries do mix recognisable elements from the Western (both democratic and conservative) traditions, they have their own specific dynamics, which as a whole do not correspond to any existing typology applied to the Western EU members.

[2] According to the classification applied by Sapir (2005).
[3] Czech Republic, Hungary, Poland and Slovakia.

Daianu (2007) explores several aspects of inner dynamics in European societies (demographics[4], the crisis of the welfare state, aspects of 'decadence') and speculates on what lies ahead. Daianu's comments on the CEE countries are quite relevant here. He embraces the idea that high growth rates are not sufficient for securing tranquility in social and political life. Sustainable economic growth should not impair social cohesion, which has to be accompanied by an adequate production of public goods. Daianu points to a growing number of signs showing that market fundamentalism is on the retreat and that pragmatic, social and environmental concerns will find their way more easily into mainstream policy-making.

As Offe (2010) remarks, transition from state socialism to market capitalism and democracy, as undergone by post-communist Europe, does not have a historical precedent to learn from, the more so that there was no deliberate project for this transformation, and no model or template to refer to. In these circumstances, the policy making process in general (social policy included) has a distinctive pattern, which resembles a state of emergency, dominated by many hesitations and changes of direction, high volatility, ad hoc measures and *bricolage* (namely, the eclectic mixture of a variety of policy elements without an integrating plan). The result has been the adoption of 'faceless' hybrids in the various CEE countries, which differed both from each other and from the different types of welfare practiced in Western Europe.

With the last round of Eastern enlargement in 2007, EU-27 shows a Gini coefficient of 0.399, which is lower than the US (0.394). Exactly a third of the total population of EU-27 lives below half the median of the original EU-6 core countries (Offe, 2010). This suggests considerable inequalities and disparities between old and new EU members with respect to both economic and social development.

Political developments during the transition period

Starting from the premise that social models are associated with different political constituencies for welfare provision that are likely to shape the nature of welfare state adjustments (Drahokoupil and Myant, 2009), we firstly describe the evolution of the political contexts of the two countries. This will set the stage for a comparative analysis of the main social indicators.

Bulgaria

The Bulgarian transition was marked by a lack of vision for comprehensive structural reforms and by repeated political hesitations. In the first years of transition, the newly created institutions failed to compensate for the disintegration of the old system. An informal system of redistribution practices between different social groups was built in this vacuum. An uncontrolled struggle of interests captured key liberalisation, privatisation and restructuring processes.

In March 1990 the old communist party changed its name into the 'Bulgarian Socialist Party' (BSP), without changing its communist character into that of a social democratic party (as was the case in Central Europe). The mainstream of the party was a conservative group supporting the state-owned enterprises, regulation of prices and maintenance of a social security system inherited from the socialist regime. Another group of the old communist party, who had suffered in the communist regime, constituted the Union of Democratic Forces (UDF). The two large parties (the BSP and the UDF) have continuously disputed political power in the country. A characteristic of the system change in Bulgaria was

[4] For example, parts of Europe are ageing fast, and are unwilling to adapt, as illustrated by the recent protests (November 2010) against rising retirement ages in France and Greece.

the politicisation of the transition economy. Through suction of assets in state-owned enterprises[5], a great part of the nomenklatura of the ex-Communist Party accumulated enormous wealth and came to have a strong influence on economic policies in order to protect their interests.

Ialnazov (2000) shows that in the 1990s the Bulgarian public administration was so weak that it could not oppose the interests of emerging businesses. As a consequence of the increased influence of politics over the economy, the government practically lost its power to manage the economy and became unable to provide people with basic public goods, such as protection of property rights and implementation of laws and regulations. Those much needed public goods were provided instead by criminal organisations, on a background of corruption and informal economy. After the low performance of the economy in 1993, some growth was registered in 1994 and 1995, but in 1997 Bulgaria was confronted with a deep crisis, as the annual average inflation rate of the consumer price recorded 1.082 percent (EBRD, 1999).In addition, employment decreased in 1997 to 72 percent of its level in 1989, and during the period 1989-1997 the unemployment rate was 12-16 percent of the labour force.

The standard of living dropped, and income stratification increased. Between 1989 and 1998, the population living under the poverty threshold included employed person (44 percent) and pensioners (54 percent). The average for the whole population was 48 percent. In early 1997, about 36 percent of the population was living in poverty (World Bank, 1999). This indicates a serious rise in poverty in 1997-1998. For example, 63 percent of the population indicated that they could not afford to buy clothes and shoes. The Gini coefficient measured by income per capita rose from 23 in 1989 to 34 in 1993–1995. Growing income discrepancies could be considered as a normal consequence of market mechanisms, but the accumulation of wealth in a few hands and its appropriation for unproductive and speculative purposes seems to be specific to Bulgaria (Nenovsky & Koleva, 2002).

The lack of political will for promoting painful reforms (restructuring of state-owned enterprises and large scale privatisation) led to generalised economic inefficiency. As in the privatisation process of 1992-97, no foreign investors were involved and the largest share of the assets was acquired by the working teams of the state-owned entities, whose main preoccupation was to maintain high levels of employment, high wages and social benefits. As a consequence, productivity was badly affected and the enterprises ran into debt.

The government had to face one of its greatest challenges, namely the implementation of a whole new social assistance system. Until 1996 unemployment benefits and social aid were the dominant measures, and they were clearly passive measures. However, the period after 1996 has been dominated by active measures aimed at stimulating labour participation (such as training courses). In early 1997 the growing popular dissatisfaction led to extended scale strikes and anticipated elections.

The climax this situation was the financial crisis of late 1996 and early 1997, when the Bulgarian economy was affected by hyperinflation, depletion of foreign exchange reserves (to USD 440 million without monetary gold), closure of 14 banks (holding 25 percent of the consolidated balance sheet of the banking industry in the country) and a significant drop in the use of the national currency (OECD, 1999). In July 1997 the currency board was launched, with a start-up loan from the IMF as part of necessary foreign currency reserves. The currency board system, under which the money supply must be 100 percent

[5] Finding ways to legally expropriate state assets in the interest of management, such as the MEBO (management-employee-buy-out) method of privatization, sometimes at highly preferential prices, is something that occurred even *before* privatization. Both labour and management, as future buyers of the company, had an incentive to depreciate its value as much as possible before privatization – and this led to the now well-known phenomenon of asset stripping by insiders. One usual way to achieve this was to reduce the profitability of the enterprise or unit in the period prior to the privatisation. The same phenomenon happened in Romania.

backed by the foreign currency reserves, was a mechanism for depoliticisation of the economy and restoration of government credibility (Caporale, 1999). Inflation was thus drastically reduced, the budgetary discipline was tightened and GDP turned to positive growth in the spring of 1999.

In June 2001 general elections were held. For more than 10 years the BSP and the UDF came to power in turns, but people did not really experience better lives, eradication of crimes, or improvement of serious unemployment under the leadership of either party. Consequently, they were disappointed with the existing political parties. On this background, the ex-king Simeon II successfully launched the new party ‘Simeon II National Movement’ (NMS2), which declared its public commitment ‘to drastically reform the economy and substantially improve the standard of living of the average Bulgarian within 800 days’ - a campaign promise which was in nature unreasonable. In the context of prevailing poverty and worsening corruption, the people were becoming more and more disappointed with the government. Georgi Parvanov, the leader of BSP, won the 2001 election against the incumbent Petar Stoyanov. In 2003 NMS2 lost the local elections, with less than 10% of the total votes. In the elections of the National Parliament, held in June 2005, the NMS2 lost to ‘Coalition for Bulgaria’, with BSP as a centre. In the presidential election held in November 2006, the leftist president Parvanov was re-elected.

Since 1997, as price levels and currency stabilized, real income has increased. In late 2000, employment figures for the private sector increased from 779,000 to 878,000 persons. However, we should not overlook that, although the unemployment rate decreased from 13.7 percent in 1997 to 12.2 percent in 1998, it soared to 17.9 percent in 2000 (Koyama, 2008: 162), due to the newly introduced monetary regime.

The large number of changes undertaken on the Labour Code has created more opportunity for further legislative amendments aimed at addressing labour market issues and the rigidity of real wages. In 1999 personal income distribution became very unequal and the Gini coefficient rose dramatically (from 25 to 43). The overall standard of living in Bulgaria is one of the lowest in the CEE countries, and the social policy area is in need of comprehensive attention (Nenovsky & Koleva, 2002).

Romania

Like in most of the CEE countries, Romania’s economy had been centralised for forty-five years (1945-1989) during communism.

In December 1989, the power was seized by the Front of National Salvation, made up of ex-communists who were coldly treated during the last years of the old regime. The transition to a market economy was thus promoted by a Government having the ex-nomenklatura as its centre. The ‘Adjustment programme’ published in August 1990 did not take into consideration the macroeconomic stabilisation that was experienced at that point in time, and which was due in part to Ceausescu’s strategy to swiftly repay foreign debts in the 1980s.

The winners of the autumn 1992 elections were the leftist Ion Iliescu and the Front of National Salvation. The system transformation in Romania was ‘a stop-go transformation’ (Hunya, 1999), because the ex-communists emphasised negative factors in the process of transition to a market economy and advocated to slow down the speed of transition and provide careful social protection (Yoshii, 2000). According to Hunya (1999), the Romanian transition was characterised by ‘pathological gradualism’.

In November 1996 Emil Constantinescu, the candidate of the Opposition, was elected President. The partners of the new governing coalition were the Democratic Convention (DCR), a group of center-right parties, and the pro-market Social Democratic Party (USD). The new government led by Victor Ciorbea (DCR) drafted an economic reform programme aimed at the liberalisation of the foreign exchange market, the liberalisation of prices, the acceleration of privatization, and the restructuring of state-owned enterprises. A tight monetary policy was adopted and the state subsidies were drastically cut. However, these necessary macroeconomic policies did not have immediate effects. A negative rhythm of economic growth was registered three consecutive years from 1997 and the trade deficit continued to increase. There was even the risk of Romania's default in foreign debt repayments, since these were expected to reach their peak in the first half of 1999. Despite the successful payment of two international bonds, the crisis went on and Romania had to negotiate a loan with the IMF in August 1999.

Despite the good intentions, during the four years since the elections of November 1996 the Prime Minister changed three times, reflecting great political instability within the country.

The Romanian economy turned to a positive path only in the first quarter of 2000. At that point the population had still failed to experience better lives. This is the reason why the reformist parties lost the general election held in November 2000. The ex-communist Party of Social-Democracy in Romania (PDSR) won 37% of the total votes and became the leading party, followed by a nationalist, xenophobic party, namely the Great Romania Party (PRM). Ion Iliescu, who had belonged to the communist elite, made his comeback as President. He won against Corneliu Vadim Tudor, the candidate from the PRM. Had the latter won, the EU would certainly have reconsidered its support for Romania's European integration. This situation symbolically expresses the difficulties of the transition period in Romania.

In the elections of November 2004 the ruling coalition of the Social Democrats (the previous PDSR) and the National Union of Humanitarian Party of Romania gained first place in Parliament but lost its seats to about 40%. The Presidential run-off was held between Adrian Nastase, the candidate from the ruling party of the Social Democrats, and Traian Basescu (then Mayor of Bucharest), who was the candidate promoted by the opposition coalition of the National Liberal Party and the Democratic Party. Basescu became the new President of Romania. The continuing conflicts between the Prime Minister Calin Popescu Tariceanu and the President created a most unstable political situation in the country. Basescu was re-elected in 2008, while Tariceanu's group lost considerable political ground – hence his mandate as Prime Minister ended on 22 December 2008.

Romania is yet to face significant challenges. Further structural reforms are needed to create a competitive market economy leading to a harmonious integration within the Common Market. With over 15 percent of the total population living below the poverty line and two thirds of this percentage living in rural areas, next to substantial but insufficiently exploited economic potential, the achievement of this goal remains a distant prospect.

Welfare system developments during the economic transition

For both countries, the evolution of social policies in the transition period can be divided into three stages: a) the reparatory stage (December 1989 - June 1990), with the objective of compensating the population for the deprivation suffered under the communist regime; b) transition strategy elaboration and setting of minimal institutional and legislative framework (corresponding to the interval 1990-1991), and c) effective social policy (until the preparation for EU accession).

The social policy literature (Marginean 1999, Zamfir 1999) speaks about a 'social policy deficit' in the transition years, especially in the area of protecting certain marginal groups. From the financing perspective, the Romanian and Bulgarian welfare provision systems can be characterised as minimal (Preda, 2002). Financial support for certain universal social services (such as education or health) was generally low. In the interval

1990-1999, the share of social expenditure in GDP in Romania was 16.5 percent and decreased at 13.2 percent in 2000, which places the country both under EU25 (26.5 percent) and EU15 (26.8 percent) (Eurostat – ESSPROS).

However, both Romania and Bulgaria preserved the universal character of access to certain social services and benefits (examples include child allowances and social benefits at childbirth). Initially free, the education and health systems began to be reformed and private alternatives appeared. In the health sector a system of health insurance was introduced, using the German model.

Until 2000, the major target group for public support was the class of wage earners. This represents, to some extent, a continuation of policies promoted by the communist regime, which invariably linked welfare with 'remunerated work'. The employed persons are thus protected from social risks and enjoy increased attention from the government. On the other hand, the most vulnerable groups confronted with poverty and social exclusion did not receive the attention of political decision-makers (e.g. the marginalised Roma minority in Romania).

Continuing the spirit of communist policies, in the first part of the 1990s efforts were made for preventing unemployment, either by subsidising non-profitable state enterprises or by using early retirement as a means of avoiding job loss. As early retirement was extensively applied as an alternative to massive redundancy, the proportion of pensioners in the working-age population significantly increased after 1990, in both countries.

Another feature, to some extent connected to the increased attention paid to wage earners, is the preference for a social insurance based system. This system in effect provides protection for those already on the job market and excludes those outside it from a number of social services and benefits, which is typical of a corporatist-conservative regime.

Several studies on the welfare provision systems in post-communist Romania and Bulgaria (Deacon 1993, Preda 2002, Zic 1998) emphasise the essential role played by unions in welfare design. While unions have been involved in social policy modelling, their role has been different from that of the Swedish unions, for instance, in that they do not lobby for citizenship rights. In the two countries studied here, unions have introduced a sort of parallel citizenship: as they have promoted exclusively the rights of union members, the latter have grown to have more rights than non-members (Preda 2002). In addition, Romania has experienced the emergence of an alliance between unions and the political class, aimed at preserving the privileges of the working class and ensuring them increased protection by the state (Deacon 1993). Unions in the mining, transport and telecommunications industries, for example, have negotiated directly with the government and obtained social benefits for their members, thus enjoying extra protection by comparison with the rest of the population.

Another feature of the welfare regimes in Romania and Bulgaria is the important role played by the family unit in welfare provision. The family is the real 'safety net' for those individuals who are insufficiently protected by the state, offering support to its members in terms of housing, child rearing and aged care. During the transition period, families have taken on an extra burden, in particular with respect to child rearing. In the communist regime it was the production unit (the factory) that was offering child rearing services for free or at very low prices. After 1989, many of the childcare centres and kindergartens organised by the state enterprises were abolished, leaving families without support in this matter. It can be said that in these two countries there has been a tendency towards a family-based welfare system, in which the household bears a great part of the responsibility for its members' welfare (Esping-Andersen 1999: 51). Accordingly, in Western Europe family-based systems are influenced by Catholic teachings and by the subsidiarity principle, and are more often present in the Mediterranean states of the EU.

In this context, it can be observed that the profile of social policies in Romania and Bulgaria also has similarities with welfare regimes promoted in the Latin (Mediterranean) countries. Leibfried (1993) adds a fourth type of welfare regime to the three-type taxonomy formulated by Esping-Andersen. This fourth type is considered to be strongly influenced by the Catholic Church and has a different welfare base from the other three types, characterised by a strong agricultural sector combined with a subsistence economy. The Romanian economy offers a similar welfare base, given the high participation of Romanians in agricultural practices at subsistence levels. This situation has several implications for social policies. On one hand, subsistence agriculture does not provide sufficient resources for the development of human capital among the rural population. On the other hand, those who work in agriculture outside a salaried system are exposed to the risk of being excluded from the social welfare system.

Welfare indicators for Romania and Bulgaria: an alarming picture

The post-communist welfare systems in Bulgaria and Romania was first characterised by the transition dilemma: after the fall of the communist regime, economic performance dropped below expectations, so new ways had to be found to improve welfare without affecting economic competitiveness. Although they entered the transition period with a set of welfare policies inherited from the old system, these policies were inadequate and led to further social inequality. In the first years of transition, the two states found themselves under political pressure to maintain the old welfare system, at least in structure. In a second stage they reduced the system to facilitate efficiency and growth at the macro-economic level, and in a third they had to address the rising social costs of transition to the market system.

In both countries, the transition from communism to a market economy occurred on the background of a severe economic crisis and decline in incomes. Like all transition economies, Romania and Bulgaria went through extensive privatisation, and suffered from high inflation and unemployment, with dramatic consequences for the material well being and ***real wages*** of their populations (see Table 3). The speed of reform was less successful here than in the other CEE countries closer to Western Europe. A classification of transition countries by ***income*** is presented in Table 4, which shows Romania and Bulgaria as belonging to the lower-middle income group.

Table 3: Trends in real wages 1989-2001

Countries	**1989**	**1995**	**2001**
Bulgaria	100	60	51
Romania	100	74	71

Source: UN Economic Commission for Europe (2002: 167)

Table 4: Classification of transition countries by income

Low income	**Middle income**	**Middle income**	**High income**
Armenia	Albania	Croatia	Slovenia
Azerbaijan	Belarus	Czech Republic	
Georgia	Bosnia-Herzegovina	Estonia	
Kyrgyz Republic	Bulgaria	Hungary	
Moldova	Kazakhstan	Poland	
Tajikistan	Latvia	Slovak Republic	
Turkmenistan	Lithuania		
Ukraine	FYR Macedonia		
Uzbekistan	Romania		

	Russian Federation		
	Republic of		

Note: Low: $755 or less; Lower middle: $756–2,995; Upper middle: $2,996–9,265; High: $9,266 or more
Source: World Development Report 2000/2001, World Bank

Table 5 presents the ***social protection expenditures*** in the new EU post-communist countries as a share of GDP. This indicator is very suggestive about the performance of a welfare system. Unlike Slovenia, the Czech Republic, Poland, Hungary and Slovakia, which are well positioned in social spending, Romania and Bulgaria, together with the Baltic states, registered the lowest levels in this group of countries. In 2001 and 2003, Romania and Estonia were at the bottom of the ten new EU countries in this regard. The discrepancy is even greater in comparison with EU-15 (in 2005 – 16.1 percent in Bulgaria and 14.2 percent in Romania, as compared with 27.8 percent in the old EU member states).

According to Drahokoupil and Myant (2009), the expenditures on social protection in Bulgaria, Romania, Slovakia and the Baltic states position them in the category of a 'minimal welfare state model[6]'.

The current economic crisis has not only caused economic activity to decrease. It has also led to lower levels of tax contribution coupled with increasing tax evasion. In 2009, in response to a growing government deficit, these states adopted more comprehensive measures to include more significant reductions in social protection expenditure.

Countries that spend more on social protection have in generally lower levels of inequalities and poverty, a higher quality of social services and benefits, and consequently a higher longevity of their populations and a higher standard of overall well being (Aidukaite, 2010). Certainly, there can be other factors affecting social inequality, such as economic and employment growth, but the higher social spending reflects the capacity to determine the degree of inequality in society. Bulgaria and Romania, along with the Baltic countries, spend the least on social protection in the group of the new EU post-communist countries and, as a consequence, the income inequality, expressed by the ***Gini coefficient***, is also higher. Romania and Bulgaria (with 31.0 and 29.2) show higher inequality than Slovenia, Slovakia, the Czech Republic and Hungary (see Table 6).

Table 5: Total expenditures on social protection, current prices (% of GDP)

Countries	**2001**	**2002**	**2003**	**2004**	**2005**
Bulgaria					**16.1 (p)**
Czech	19.5	20.2	20.2	19.3	19.1 (p)
Estonia	13.1	12.7	12.6	13.1	12.5
Latvia	14.3	13.9	13.8	12.9	12.4 (p)
Lithuania	14.7	14.1	13.6	13.3	13.2 (p)
Poland	21.0	21.1	21.0	20.1	19.6 (p)
Romania	**13.2 (p)**	**13.4**	**12.6 (p)**	**15.1 (p)**	**14.2 (p)**
Slovenia	24.8	24.8	24.1	23.7	23.4 (p)
Slovakia	18.9	19.0	18.2	17.3 (p)	16.9 (p)

[6] The 'minimal welfare state' implies a greater formal dependence on private provision and payment for services than is common in Western Europe. The state fulfils its formal obligations and ensures that a private sector can supplement its activities to provide what is considered an adequate level of provision. This roughly corresponds to countries that underwent gradual welfare adjustments with low levels of overall provision, including the Baltic states, South-Eastern Europe (Romania and Bulgaria) and Slovakia.

Hungary	19.3	20.4	21.1	20.7	21.9
EU-15	27.1	27.4	27.8	27.7 (p)	27.8 (p)

(p) = provisional value

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

Table 6: Basic economic and social indicators of the new EU post-communist countries

	GDP per capita, PPS, 2008	UN Gini index (per capita)	Absolute poverty rate (%), $2.15/day, 2002/2003	Shadow economy, % of GDP, 2004/2005
Bulgaria	**39.3**	**29.2**	**4**	**36.5**
Czech Republic	82.5	25.4	0	18.3
Estonia	70.5	35.8	5	38.2
Latvia	58.6	37.7	3	39.4
Lithuania	62.3	36.0	4	30.2
Poland	54.9	34.5	3	27.3
Romania	**42.0**	**31.0**	**12**	**51.1**
Slovenia	91.8	28.4	0	27.3
Slovakia	71.0	25.8	3	18.2
Hungary	62.8	26.9	0	24.3
EU-15	110.9	29	0	18.2

Source: Eurostat, World Bank 2005, Schneider 2007

Table 6 also presents the ***absolute poverty rate***, expressed as the number of people living on less than $2.15 a day. This number is remarkably high in Romania (12 percent), due to the large number of Roma minority living in poor conditions (Sandu, 2009). On the contrary, in the other new EU member states the absolute poverty rate is very low or even zero (in the Czech Republic, Slovenia and Hungary). Table 6 reveals that Bulgaria and Romania have had the lowest levels of GDP per capita in the group of the new EU post-communist countries.

It is also interesting to examine the ***share of shadow economy*** in GDP, taking into account Schneider's (2007) observation that the shadow economy has (paradoxically) some positive effects, as it contributes to the reduction of poverty in low-income countries. All CEE countries display higher rates of shadow economy as percent of GDP than EU-15, but Romania is again the worst performer, with 51.1 percent of the GDP, followed by Latvia, Estonia, Lithuania and Bulgaria. On the other hand, those countries with higher social protection expenditures and better minimum wages have a smaller sector of shadow economy (the Czech Republic 18.3 percent, Slovakia 18.2 percent, Hungary 24.3 percent). Tax evasion is always pervasive when people believe that the government, as a consequence of providing insufficient and poor services, does not deserve financial support. A vicious circle occurs: the low quality of public social services and the low level of social benefits contribute to this behavior, which becomes generalised in poor countries.

The ***level of the minimum wage***, both absolute and as a proportion of average gross and net earnings, together with the proportion of employees earning the minimum wage, can also tell a story about citizens' well being. Table 5 shows these indicators for the EU countries. It allows analysis of these countries within a broader context.

Table 7: Statutory minimum wages in the EU

Country	**Absolute level, 2007 (€/month)** [a]	**Absolute level, 2007 (€/hour)** [b]	**As a percentage of average gross wage, 2005** [c] **or 2006** [d] **(%)**	**As a percentage of net average wage (after-tax value), 2006 (%)** [e]	**Percentage of employees who earn minimum wage, 2005 (%)** [f]	**Type of rate** [g]
EU27 [h]						
Bulgaria	92	0,58	49	n/a	16.0	monthly/hourly
Romania	114	0,71	32	n/a	9.7	monthly
Latvia	172	1,08	33	n/a	12.0	monthly/hourly
Lithuania	174	1,09	38	n/a	10.3	monthly/hourly
Slovakia	217	1,36	34	40	1.7	monthly/hourly
Estonia	230	1,44	33	n/a	4.8	monthly/hourly
Poland	246	1,54	33	39	2.9	monthly
Hungary	258	1,61	38	51	8.0	monthly
Czech Republic	288	1,80	39	45	2.0	monthly/hourly
Portugal	470	2,94	40	44	4.7	monthly
Slovenia	522	3,26	46	n/a	2.8	monthly
Malta	585	3,66	50	n/a	1.5	weekly
Spain	666	4,15	40	42	0.8	monthly/daily
Greece	668	4,18	39	46	n/a	monthly/daily
France	1,254	7,84	47	55	16.8	hourly
Belgium	1,259	7,87	40	56	n/a	monthly
Netherlands	1,301	8,13	46	52	2.2	monthly

Great Britain	1,361	8,51	37	42	1.8	hourly
Ireland	1,403	8,77	52	60	3.3	hourly
Luxembourg	1,570	9.81	50	48	11.0	monthly

a January 2007 data from Eurostat (EL: July 2006 data from Eurostat; Japan: 2006 data from OECD)
b January 2007 data from Eurostat (EL: July 2006 data from Eurostat; Japan: 2006 data from OECD)
c 2005 data from Eurostat: BG, RO, LV, LT, SK, EE, PL, HU, CZ, PT, SI, MT, ES, NL, UK, IE, LU
d 2006 data from OECD: EL, FR, BE, Japan, USA; note that OECD/Eurostat figures may not be strictly comparable given the different base for average wages
e 2006 data from OECD
f 2005 data from Eurostat
g Eurostat 2007
h Seven member states do not have a statutory minimum wage

Sources: Funk and Lesch, 2005; Regnard, 2007; OECD, 2007

The variations of statutory minimum earnings are quite dramatic across the EU. Gross monthly earnings in the highest-earning member states are more than ten times those in Bulgaria and Romania. Meanwhile, the highest EU minimum wage (€ 1,570 per month in Luxembourg), is 17 times higher than the lowest (€ 92 per month in Bulgaria). The latter is still 7 times higher when purchasing power parities (PPP) are taken into account (European Foundation for the Improvement of Living and Working Conditions, 2007).

If we analyse minimum wages as a proportion of average monthly gross earnings, as indicated in Table 7 Bulgaria belongs to the CEE group with the highest proportion (over 45 percent), while Romania has the lowest proportion in the EU (32 percent).

One important indicator of the practical impact of the minimum wage on living standards and both the labour market and the welfare system is the percentage of workers earning the minimum wage. In Bulgaria and Romania, a high percentage (16.0 percent, respectively 9.7 percent) of the workforce are on minimum wage. By contrast, in countries like Ireland and Great Britain, where the nominal minimum wage rates are high, only very low proportions of the workforce (between 1 and 4 percent) earned the minimum wage. This suggests that minimum wage systems do not always play the most important role in maintaining or increasing wage levels in low-paid jobs, as this role may be more effectively played by low unemployment.

Aidukaite (2010) uses the latest data of the European Commission on ***material deprivation***, which is another important indicator measuring the degree of poverty for describing the social situation of the new member states. In most of the new EU members, around 30 percent of people would like to have a car but cannot afford it. An exception is the Czech Republic (19 percent). Bulgaria and Romania are in the group with the highest deprivation indicators. Fifty-seven percent of citizens in Bulgaria and forty percent in Romania cannot afford a meal with meat, chicken or fish every second day (if they so want). The proportion of people who stated that they had accommodation problems (dilapidated windows, doors and floors) varies from 30-35 percent in Romania to only 6 percent in the Czech Republic. The figures presented in the above-mentioned study for Romania and Bulgaria reveal a widespread material deprivation, poverty and inequality that could seriously limit human development.

Dependence on ***foreign remittances*** can also be taken into account for assessing welfare state performance. Working in other countries and sending earnings home is a common survival method for citizens of low income countries. Table 8 shows the situation of remittances in Romania, Bulgaria and other post-communist economies. For comparison, the table presents other transition economies with high levels of this indicator. In the group of the new EU members, the analysed countries display the highest percentage of reported foreign remittances in GDP, respectively 5.5 and 5.4.

Table 8: Remittances as % of GDP, 2006

Country	**Remittances – reported (WB)**	**Remittances – estimates (IFAD)**
Bulgaria	**5.4**	**3.8**
Romania	**5.5**	**3.9**
Czech Republic	0.8	1.2
Hungary	0.3	0.8
Poland	1.3	1.4
Slovakia	0.8	1.3
Slovenia	0.8	-
Estonia	2.4	2.3
Latvia	2.4	2.3
Lithuania	3.3	1.6
Armenia	18.4	18.5
Kyrgyzstan	17.1	31.4
Moldova	35.2	31.4
Tajikistan	36.3	36.7
Albania	14.9	21.7

Source: World Bank (2008), IFAD (2007)

The high level of remittances is associated with the growing phenomenon of ***migration*** within the active population. Beside some positive outcomes, this also has some important negative economic and social consequences, such as: an ageing domestic workforce and demographic structure, increasing labour deficit for some industries, lower economic competitiveness due to 'brain drain', and an increasing gap in regional development levels. Given the current global economic crisis, as remittances from emigrant workers are reduced, the economic deficit will increase. Labour emigrants returning to their home countries will be confronted with a reduced local labour demand, and many are likely to grow dependent on social assistance or unemployment benefits (Anghel, 2010).

Conclusions

As Offe (2010) remarks, the improvement of the welfare states in the CEE is of vital importance for the institutional stability of the EU as a whole. If his thesis that this stability depends on the relative socio-economic homogeneity of the constituent member states is right, then the empirical findings discussed in this paper, which indicate a very uneven scenario, should prompt serious warnings. Strategic measures are urgently necessary in both Romania and Bulgaria, to redress this imbalance, otherwise their fragile democratic structures and their successful integration in the EU are at risk.

The welfare systems practised in Romania and Bulgaria during the transition period cannot be approximated by any particular type of 'classical' welfare regime such as those proposed by Esping-Andersen. However, both have features across several 'classical' types. As far as welfare system funding is concerned, the Romanian and Bulgarian regimes are more similar to the liberal type, as the state offers minimum social support. In terms of benefit and service coverage, it resembles the social-democratic type. However, if we consider workplace-related status differentials in benefit provision, as well as the preference for a social insurance based system, then the closest picture is that of a corporatist type. The important role of the family in welfare provision and the significant level of occupation in subsistence agriculture remind us of the fourth, 'Latin' type. The overview is one of a mixed system, which combines elements from several different types of regimes, making it difficult to categorise within any particular type.

In this paper, we have examined a total of ten welfare indicators, as follows: trend in real wages, annual average income level per capita, social protection expenditure, Gini coefficient, absolute poverty rate, shadow economy as percentage of GDP, level of minimum wage, level of material deprivation, share of foreign remittances in GDP, and level of migration. We have set aside indicators such as public pension expenditure, average old-age pension, with their associated aging population issues, which require extensive space for a more elaborate argument. Similarly, level of healthcare is an indicator that requires separate, more in-depth attention.

Together, these ten indicators paint the image of a region struggling to find its feet out of transition and into a social model that could deliver a decent level of income security and welfare to its citizens. So far achievement in this area is still inconclusive, with unacceptable levels of poverty as a consequence, in both relative and absolute terms. Due to the earlier tougher and rigid etatism and communist totalitarianism, Romania and Bulgaria have lagged behind the other CEE countries in restructuring and modernising their economies. This poor economic performance exposed many social groups in the two countries to increased suffering during the transition period.

The social issues revealed in this paper need to be addressed as a first concern for policy makers. Romania and Bulgaria must combat the chronic underfinancing of the public social services which has been favoured by a general negative attitude towards the social role of the state, which seems to have been considered more of a necessary evil than as a lever for general equitable welfare. Unhelpfully, Romanian and Bulgarian public spending is likely to be even more reduced, as a consequence of the current economic crisis.

A low level of welfare directly challenges the goals of sustainable knowledge-based growth, which is mandatory for the survival of the Romanian and Bulgarian economies. Low incomes lead to an allocation of the largest share of revenues to the provision of basic necessities (42 percent of household available income, on average, in 2007, went for food, housing, health, clothing and shoes, and transportation). This means a perpetuated low level of domestic demand for services or products with higher added value. With a population focused on surviving or covering its needs, with a low aggregate domestic demand for knowledge intensive goods, there is no available lever for encouraging a future economic development based on knowledge, research, development, innovation, or highly educated human capital.

The findings of this study and the premises of a new worldwide call for effective social instruments indicate that the welfare state pattern in the two analysed countries has to move towards a renewed principle of solidarity, with fewer social risks and reduced vulnerability, enabling individuals to access more resources for human capital development, through wider access to information and opportunities, through less inequality and better social protection.

The figures analysed above, indicating poverty and poor economic performance, do not come as a surprise. However, now is a good moment for reflecting on the approaches to the social model adopted so far in the two countries, and for proposing a strategic turn.

An Anglo-Saxon, liberal approach to social policy and welfare appears to have had perverse results in the case of Romania and Bulgaria. The minimal social assistance has increased the social insecurity and poverty. The absence of certain standards of living has eventually made individuals unable to exercise freedom of choice, thus affecting their full participation in the market. Inducing a liberal model into low performance economies looks somehow paradoxical in this context. The Anglo-Saxon approach seems at odds with Romanian and Bulgarian economic and social problems as it does not help to eradicate poverty. On the contrary, it actively contributes to the perpetuation of poverty.

The long-term objectives of welfare state building call for a radical horizon change in political stance and strategic thinking, which should take into account long-term developmental processes. The neo-liberal choice has proven counter-productive for modernisation, caused too much polarisation and needless impoverishment, and rendered these countries incapable of responding adequately to the new risks and challenges of the global context.

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