

Inequality And Social Protection Policies (The Case of Albania)

Lindita Kiri

Department of social sciences, Qiriazi University, Tirana, Albania

Email of the corresponding author: linditakiri@yahoo.com

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Abstract – Social protection schemes are a separate set of rules supported by one or more institutional units that regulate the provision of social protection benefits and their financing. The paper aims to describe the current systems of social protection, both contributory and non-contributory, and to evaluate trends and performances in accordance with the structure and levels of social expenditures. Social protection systems since the beginning have had a great impact on the improvement of socio-economic conditions in European countries. The creation of welfare systems has influenced the redistribution of income and, consequently, the reduction of the level of inequality. An analysis of inequality is made according to the models of social welfare systems in Albania. The Albanian system of social protection is characterized by a relatively low level of expenditure. In 2017, Albania spent only 9.2 percent of GDP on social protection (excluding health insurance), which was less than half the EU average and significantly below neighboring EU aspiring countries. This reflects low beneficiary coverage (except for old-age pensions) and low benefit levels.

Keywords –Social Welfare Policies; Income Components; Inequality; Income Redistribution.

I. INTRODUCTION

In general, people would agree that a society where more people have a positive life experience, or greater well-being, is something worth aiming for. This suggests that policymakers should be interested in how to create the conditions for this to happen. For a long time, there has been a widespread assumption that prioritizing economic growth is the best way to maximize welfare (12).

Income inequality is one of the most mentioned topics that is at the top of the agenda of international institutions such as the World Economic Forum, the International Monetary Fund, UN agencies, etc. The reason for this was partly the financial crisis, which contributed enough to the increase in inequality on a global scale. Moreover, it questioned the current tools used to measure and address inequality and poverty, challenging governments and experts to find new ways to address changing economic realities (2).

But the rising trend of inequality began long before the financial crisis had its effects. Studies on inequality show that this trend coincides with the period after the 1980s, during which an increase in the level of inequality was observed around the world. Therefore, many different theories and studies have tried to analyze the factors that have caused this trend, as well as the most appropriate means to evaluate it. One of them is the article by Franzini and Raitano (2015), which examines the historical progress of inequality and notes an increase in inequality from disposable income. (10).

Their analysis goes further, showing how the level of inequality has changed following the action of transfers and social systems. What is observed from the analysis is a gradual and significant increase in inequality in all European countries.

This shows that the effect of social policies should not be underestimated. The differences in the distribution of income from work and from disposable income, for all selected countries, suggest that economic policies affect the redistribution of income coming from the labor market, through the taxes and transfers that are applied. Therefore, the best way to understand these differences is to analyze welfare policies, as they represent a country's socio-economic policies and commitment to inclusive processes.

The purpose of this article is to examine the relationship between social systems and the level of inequality, through a comparative analysis in time and geographical scope. For this purpose, the analysis will first focus on reviewing the concept of social welfare systems and their main components in European countries. (5).

To serve the purpose of this article, the redistributive capacity of social welfare policies has been measured for each of the selected countries, analyzing the increase and/or decrease after the action of social policies such as social transfers, pensions, etc.

II. MATERIALS AND METHOD

After reviewing the literature, it is time to analyze the available data, to see if they match the theoretical models of welfare systems and the concept of inequality. As mentioned above, the main point during the analysis of the welfare-inequality axis lies in how the process of income redistribution occurs and what are the chances that the use of appropriate policies will have an impact on it.

On the other hand, at the level of family units, data from employment and self-employment are limited. For this reason, the analysis is constructed as follows:

Salary income was taken from the individual level and then aggregated according to the respective family units,

Following the same logic, income from self-employment is taken at the individual level and then aggregated for all individuals living in the same household, Pensions are also taken at the individual level, taking into account old-age pensions and family pensions,

In terms of transfers, the total transfers for each individual, for each household are first constructed and then added to the value of transfers at the household level, the sum of all the above components is added to construct the total gross income of each household unit, which then becomes equivalent for each individual, in order to better compare the individuals living in the family.

After constructing the main components of income, it is possible to measure the GIN index, an indicator that relies on the concentration of income to measure the level of inequality, using the relationship that exists between the cumulative distribution of income and the population. However, it remains one of the most widely used indicators for measuring inequality. The following analysis was performed using the STATA package. To make it more comparable, only 15 EU member states are selected (except Greece, for which no EU-SILC revenue data are available).

III. SOCIAL WELFARE SYSTEMS AND ANALYSIS OF INEQUALITY

Comparison according to different models of welfare systems is the last step in the analysis of income inequality.

As can be seen from the figure below, the Scandinavian model reflects the lowest inequality index for each income category. Step by step, adding pensions and all other transfers, inequality decreases in all models. At this point, it is more evident to see how the theoretical predictions match the results of the analysis, as the Scandinavian model has the best disposable income performance among the four models.(6) On the other hand, in the southern model, a high decrease in income inequality is observed after pensions

are considered, but not so high when social transfers are added¹. It is noted that the intensity of redistribution from social transfers is lower for the southern model.

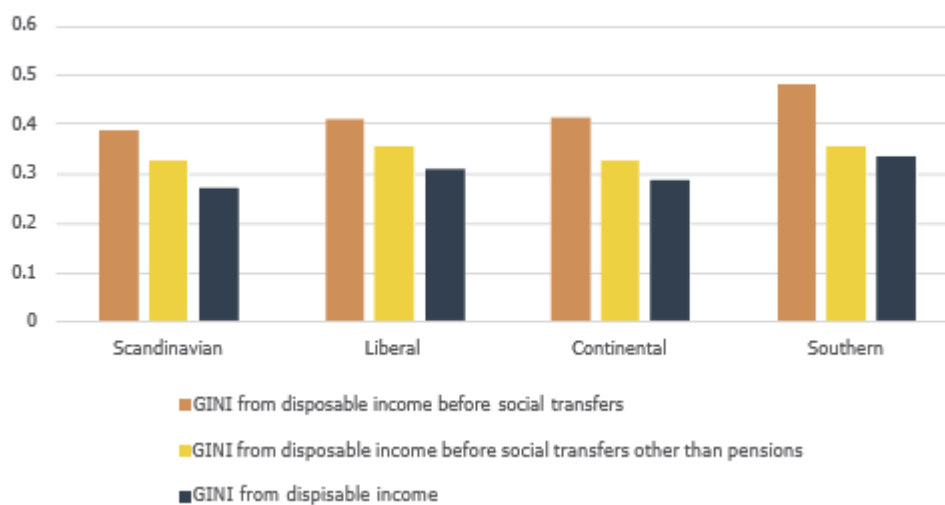


Figure 1. Inequality according to social welfare systems²

The intensity of redistribution from transfers is significantly higher in the Scandinavian model. In this way, the regrouping of inequality according to welfare models points out that inclusive social policies yield positive results in terms of low levels of inequality and high levels of income redistribution.³ Analysis of inequality shows that the social-democratic model, such as the universal welfare system, is more redistributive and consistently demonstrates low levels of income inequality.

IV. SOCIAL PROTECTION POLICIES IN ALBANIA

In Albania, social protection relies on administrative data like us;

- Law 17/2018 "On official statistics";
- National Program of Official Statistics 2017-2021;
- Memorandums of cooperation with institutions where they are grouped in these categories;
- Families and beneficiaries in the economic assistance scheme.
- Beneficiaries in the unemployment payment scheme;
- Beneficiaries in the urban and rural pension scheme;
- Beneficiary in the disability payment scheme.

In Albania, important reforms of social protection systems were undertaken during the 1990s.

They include the restructuring of the previously existing social security system, health insurance and social assistance institutions, as well as the introduction of unemployment benefits and employment services.

In 2006, the Government of Albania ratified the ILO Convention on Social Security (Minimum Standards),

(No. 102) 1952 for the elderly, death, illness, maternity, disability, accidents at work, branches of health care and unemployment. The ratification demonstrates the commitment of the government of Albania

to maintain internationally accepted minimum levels of social protection benefits.

¹ The Southern model was not part of Obst's analysis, as this model was added later by Ferrera.

² EU-SILC, 2012

³ Decommodification represents the extent to which the needs of individuals are met by the income they have, outside the labor market. The higher the level of decommodification, the less individuals are dependent on labor market income. Consequently, for a universal social system to provide a minimum income for all, there must be a high degree of decommodification (M. Raitano, Welfare State and Redistribution: The role of universalism and targeting, 2007).

Social policies in our country are still going through a period of transition and suffer from two main shortcomings that prevent their further development: (7)

- Lack of stable statistical data over time,
- Lack of budget funds to enable the increase of social expenses.

. Social protection policies in Albania, until now, have focused on very basic elements of insurance and social assistance.⁴At this point, it is worth mentioning the initiative to reform the pension system, economic assistance, as well as the reform of professional education.

Considering the classification of measures before and after the labor market effect (presented previously), social policies in Albania are mainly focused after the labor market action, in the form of social assistance or unemployment payments.

The labor market in the country suffers from the lack of reform of the national employment systems and collective contracts, which in the absence of a strong influence from the trade unions are mainly regulated at the individual employer-employee level (without taking into account the informal labor market). In the national strategies, in recent years, special importance is being given to vocational education, as a way

to adapt to the dynamics of the labor market. However, we must take into account the still persistent effects of informality and nepotism in the labor market.

On the other hand, a lot of attention has been paid to reforming the economic assistance system in a social reintegration program. According to this program, the economic assistance consists mainly of encouraging employment as a substitute for social assistance, generating jobs in the respective communities. The social fund established to cover this type of assistance targets the groups most at risk of social exclusion.

According to INSTAT, the number of families that benefited from social assistance from 2013 to 2017 has decreased significantly, although there is no data on whether the welfare level has increased for excluded families (and in general). (8)

Turning to pensions as a form of social benefit, it is noted that there is a large difference in the amount of pensions received in urban and rural areas, which points to the problems of the insurance system related to past contributions during the period of collective farms.

Such systems still continue to penalize the elderly part of the population whose contribution life is linked to the years of communism. At this point, there is a need and place for a real study of the effect of collectivization policies on pensions and poverty of the third age.

Regarding the disability pension and the family pension, their value is significantly lower than that of the old-age pension. In fact, these two categories of pensions in European systems are usually classified as cash benefits, in the form of social assistance.

To give a general representation of the level of inequality, I am referring to the data of the World Bank, as presented in the study of the Agenda Institute. It should be borne in mind that the level of income inequality in this part is not comparable to the level of measured inequality since the methodology of measuring inequality is different. The trend of inequality has suffered a slight decrease until 2012. (9)

The level of inequality in Albania is relatively high, but its measurement is still difficult. Until today, the main sources of information on inequality indicators have been the reports of the World Bank or UNDP, due to the lack of data at the national level.

⁴ Analysis of comprehensive economic development policies as a new instrument for the economic and social integration of disadvantaged groups in society, Agenda Institute, 2018.

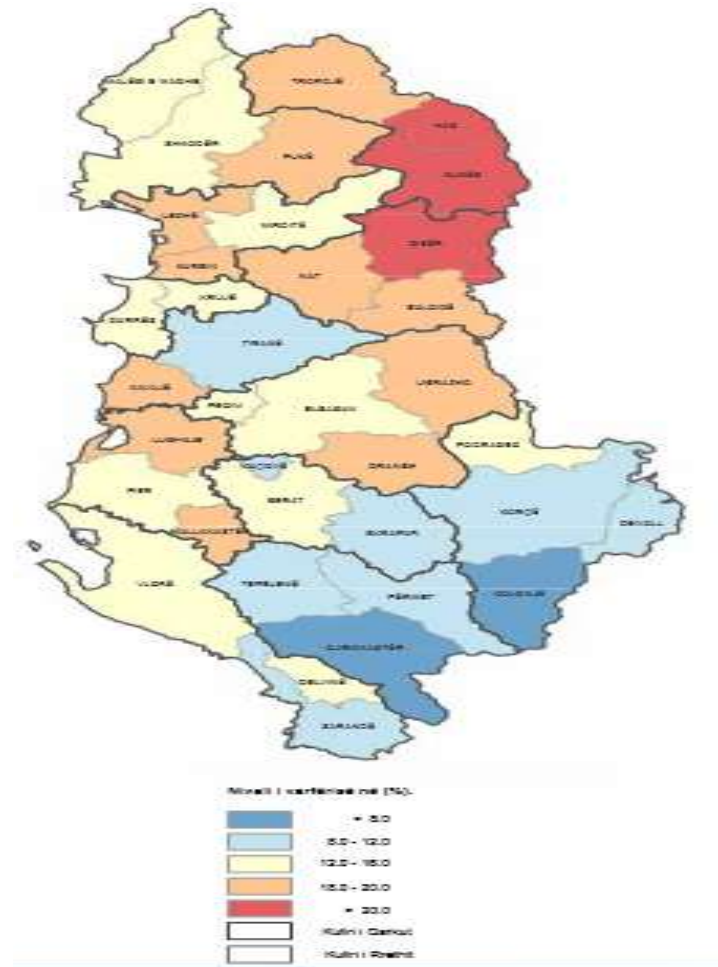


Figure 2. Poverty level in districts. (Source author)

Albania, as a developing country, needs to review economic and social policies and use them to fight poverty and inequality. But in order for social systems to develop, it is necessary to improve the statistics system in order to give a closer representation of the reality on which future policies should be based.

V. CONCLUSION

The aim of this article was clearly stated in the introduction: to assess whether social policies have an impact on the redistribution of income and the inequality that it brings as a consequence. For this reason, the analysis is initially based on the classification of social welfare systems, based on their political and economic characteristics.

The historical approach of the literature showed that income distribution affects the level of inequality, but, on the other hand, good policy design is necessary to neutralize these effects.

The review of the literature on social systems and inequality suggested some interesting findings, which served as fodder for the comparative analysis of the data and to test their consistency with the analytical findings.

Using the available data and referring to the GINI index, as the most suitable indicator for measuring inequality, the main findings can be summarized as follows:

- (1) The labor market is the biggest source of inequality in all the countries considered, regardless of the social system to which they belong,
- (2) Social transfers have a significant impact on income redistribution and reducing inequality,
- (3) The redistributive power of social systems is higher in those countries that support universal social protection systems.

As a result, this article has fulfilled its original purpose: to demonstrate the effect of social policies in reducing inequality.

Finally, a summary analysis was presented for the case of Albania, more in the form of literature comparison. Considering that the findings do not come as the original work of the author, but as a result of the comparative analysis, it is concluded that:

(4) The level of inequality in Albania is relatively high.

(5) The almost passive social policies leave reason to guess that the high inequality comes precisely as a consequence of the lack of social and regulatory policies.

At this point, and based on the results of European countries, national strategies for development will have to focus towards comprehensive policies and tax system reform, paying special attention to labor market policies, with a focus on young people.

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