

# Comprehensive Social Policies on Inequality and Social Protection Policies in Albania

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**Abstract** – Social inclusion is about measures that enable individuals and groups to have that access to public services in order to participate to the highest degree of their abilities in the social, economic and political life of our society. Social protection systems since the beginning have had a great impact on the improvement of social and economic conditions in European countries. The creation of welfare systems has influenced the redistribution of income and the reduction of the level of inequality. The paper aims to demonstrate the effect of social policies in reducing inequality through a comparative analysis on the progress of inequality levels in Europe based on EU-SILC cross-sectoral data. Albania has identified its active participation in the European Process of Social Inclusion. The paper provides recommendations on methodologies and indicators of inequality in Albania.

**Keywords** – *Inequality, Social Policies, GINI Index, Systems, Social Groups.*

## I. INTRODUCTION

Economic inequality is one of the current topics in recent studies of international institutions such as the World Economic Forum, the International Monetary Fund, UN agencies, etc.. The reason for this was the economic and financial crisis, which contributed to the increase in inequality on a global scale. She questioned the current tools used to measure and address inequality and poverty to find new ways to address changing economic realities [4].

The rising inequality trend started before the financial crisis had its effects. Studies on inequality show that this trend belongs to the period after the 1980s, during which an increase in the level of inequality was observed around the world. 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 [6], which examines the historical progress of inequality and notes an increase in inequality from disposable income. Their analysis goes further, showing how the level of inequality measured by the GINI index has changed after the action of transfers and social systems. First, what is observed from the analysis is a gradual and significant increase in inequality in all European countries. Second, disposable income inequality, after accounting for taxes and transfers, is significantly lower than labor market income inequality.

The differences in the distribution of income from work and disposable income for all selected countries show that economic policies affect the redistribution of income coming from the labor market. 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 [14].

The aim of this article is to examine the relationship between social systems and the level of inequality, through a comparison over time and geographical extent. The analysis focuses on reviewing the concept of social welfare systems and their main components in European countries. For the measurement of the GINI index, we refer to the cross-sectional data of the EU-SILC in different periods in order to highlight the progression over time of the level of inequality. The redistributive capacity of social welfare policies for each of the selected countries was measured, analyzing the increase and decrease of the GINI index after the implementation of different social policies [11].

## II. LITERATURE REVIEW (SOCIAL WELFARE SYSTEMS)

In the article "Economic Theory and the Welfare State according to Barr (1992), the social welfare system is a term used to describe socio-economic activities in four areas [8].

- social transfers in the form of money,
- health care,
- education and food,
- housing and welfare services

Within these four areas, social systems consist of a variety of social policies. In order to analyze the redistributive capacity of social systems and the specific goals of welfare policies, the literature usually identifies the methods according to which the rights and characteristics of the benefits received by individuals are determined, which are distinguished by [11].

- their nature: which can be a social payment or benefit in kind (such as health care, education, etc.).
- entitlements: the part of the population that has the right to be covered by the social protection system in cases of verification of a certain event.
- the right related to the fulfillment of seniority in the case of pensions, etc.

Taking into account these dimensions, as well as the institutional characteristics of policies, Esping-Andersen (1992) and Ferrera (1996) provide a comprehensive classification of four main welfare models: (1) the social democratic model (2) the liberal model (3) the continental model and (4) the southern model.<sup>1</sup> Esping-Andersen's classification is then revisited by Obst (2009), who makes a reorganization of the characteristics of the first three models [13]. In the table below, the author relies on the original classification by Esping-Andersen and points out that this classification is very general and does not always characterize all countries. It does not serve as a basis for assessing the level of income redistribution.

Table 1: Characteristics of social systems <sup>2</sup>

<b>Characteristics</b>	<b>Liberal</b>	<b>Conservative</b>	<b>Social democrat</b>
<b>Decommodification</b>	weak	moderate	high
<b>Residual welfare system</b>	high	high	weak
<b>Private welfare systems</b>	high	low	low
<b>Redistribution</b>	low	low	high
<b>Countries</b>	UK	DE, FR, NL, BE, AU, LU	SU, DN, HO, FI

(Decommodification represents the extent to which the needs of individuals are met by the income they have, outside the market work. The higher the level of decommodification, the less dependent individuals are 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)

<sup>1</sup> The Southern model was not part of Obst's analysis, as this model was added later by Ferrera

<sup>2</sup> Source ; Thomas Obst, Income Inequality and the Welfare State – How redistributive is the public sector?’, 2009

According to Esping-Andersen's and then Obst's view, the (Scandinavian) social-democratic model is characterized by universal inclusion and a comprehensive definition of rights. The entire system is committed to achieving equal conditions for all individuals. This goal is achieved by referring to welfare policies as a kind of right that derives from citizenship and, therefore, everyone has the right to benefit from it. In this sense, this model is part of the universal type of welfare system, covering every individual according to the provisions of welfare policies. The Scandinavian model is characterized by a universal inclusion which is financed by the taxation system, by active labor market policies and social policies dedicated to families and gender equality. Scandinavian countries favor service policies such as education, health care, etc. [18].

The liberal model is represented by the Anglo-Saxon states and the idea behind the term 'liberal' is the fact that they favor minimal intervention by the state, given that individuals are able to find an appropriate level of welfare directly from the market. The role of the state is complementary and private welfare systems are very widespread. The social policy within this system aims to maximize the capacities of people to favor individual independence. Countries belonging to this type of regime are generally dedicated to full employment. (Arts and Gelissen, 2002). In the case of the liberal model it is a preference for progressivity and direct measures based on taxes and social spending. In terms of labor market policies, the liberal model favors the absence of regulatory measures because, in this way, it is possible to achieve increased employment.

Inducing a high turnover of labor, the absence of these measures translates into an unequal distribution of remuneration from the labor market, affecting both inequality and the level of poverty. In the continental model, the welfare policies in the countries that are part of this system favor occupational social security according to each sector. Since insurance is offered at a sectoral level, this causes the system to be fragmented depending on the different industries and the type of insurance that each of them offers. Therefore, the social system is more of a residual safety mechanism (safety-net) and not a universal system.

The southern model includes the four southern European countries: Italy, Spain, Portugal and Greece. Initially, Italy was classified by Esping-Andersen as part of the continental regime, but Ferrera (1996) argued that it was better to include these countries under the same group [12]. These countries are characterized by a fragmented and unequal labor market that contributes to the growth and distribution of income and social expenditures. However, the ability of southern social systems to provide for individuals regardless of labor market outcomes remains low. Consequently, they exhibit a low redistributive power.

### III. INSTITUTIONAL DIFFERENCES AND INEQUALITY ACCORDING TO MODELS OF SOCIAL WELFARE SYSTEMS

The institutional structure of socio-economic policies can affect the well-being of citizens and the identification of inclusive countries. But while the literature presented above focuses mainly on the general characteristics of social systems, the OECD in the report 'Divided we stand, why inequality keeps rising?', highlights the institutional and structural characteristics of the labor market and the protection system social. There are differences between the countries that are part of the study, which are reflected in the social systems related to labor market policies, benefits in kind, etc.

There are four main policies aimed at increasing activation: (a) training for unemployed individuals. (b) subsidies for increasing employment, which encourage employment for unemployed individuals (c) public employment services consisting of counseling, vocational guidance (d) activation measures that impose mandatory participation in training courses The Swedish system is the most famously through the sanctions it exerts on the unemployed by denying them benefits so they can look for a job [2].

Policies are very important in reducing unemployment levels, increasing individual income from work and reducing inequality levels Data obtained from Eurostat show that social labor market policies are higher in countries such as France, Italy, Spain and Germany, while they account for a higher percentage of GDP in Sweden, Spain and Finland. In addition to labor market policies, an important part of welfare policies are social services. Their study finds a wide representation in the literature. [5].

Cash benefits are part of the social policies to be considered. Since this category of benefit is provided in the form of money, it has an immediate impact on disposable income and income inequality. All policies together can eliminate the negative effects related to the distribution of income from the labor market. There is a link between labor market income inequality and labor market institutions themselves [14].

The last step in the analysis of income inequality is the comparison of the GINI index according to different models of welfare systems, adhering to the given classification. Following the same reasoning as before, the analysis will be carried out by measuring the GINI index from wage income (or disposable income after taxes and before receiving social transfers), and then disposable income transfers will be added. As can be seen from the figure below, the Scandinavian model reflects the lowest GINI index of inequality 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, since the Scandinavian model has the best performance with a GINI index of disposable income equal to 0.276 (the lowest model among the four models) . In the southern model, a high decline in income inequality is observed. If we refer to figure 1, it is possible to notice that the intensity of redistribution from social transfers is lower for the southern model.

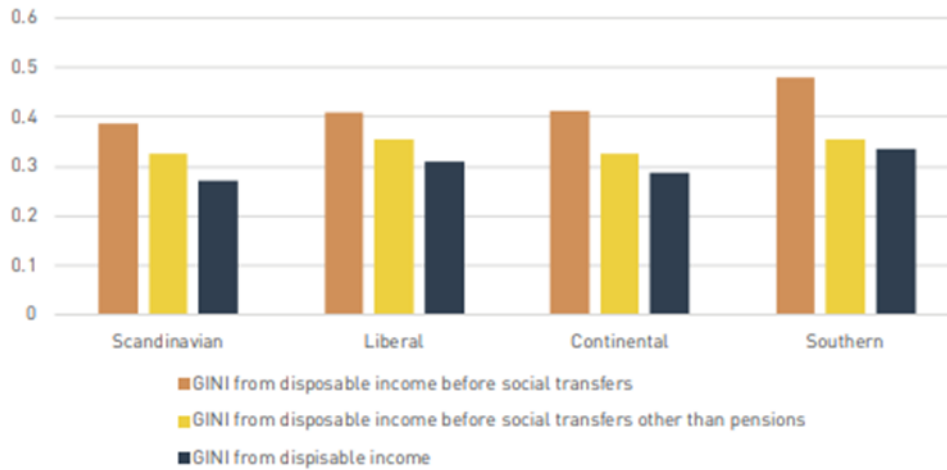


Figure 1 : GINI index of inequality by social welfare systems<sup>3</sup>

On the other hand, 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. The inequality analysis presented throughout this paragraph suggests that the social-democratic model, such as the universal welfare system, is more redistributive and demonstrates lower levels of income inequality. (figure 2)

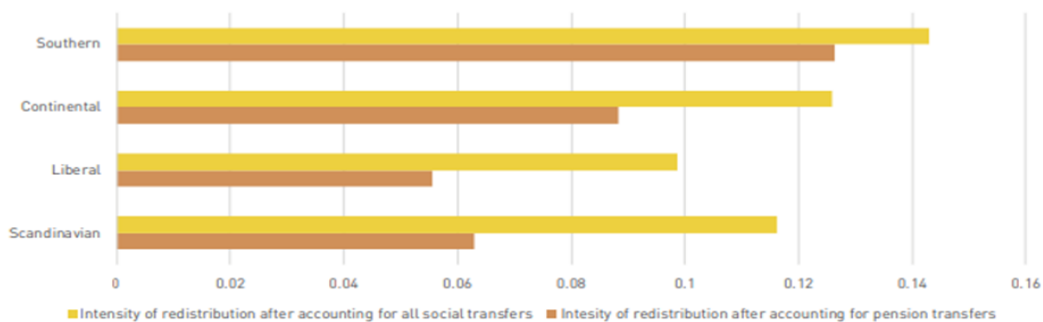


Figure 2: Redistributive intensity of transfers according to social welfare systems<sup>4</sup>

<sup>3</sup> Source: EU-SILC 2012, author's elaboration

<sup>4</sup> Source: EU-SILC 2012, author's elaboration

## SOCIAL PROTECTION POLICIES IN ALBANIA

Social policies in Albania have gone through a period of transition and suffer from the lack of stable statistical data over time and the lack of budget funds for the increase of social expenditures.<sup>5</sup> The inclusion in the National Strategy for the Development of Statistics 2017-2021 is an effort to develop the EU-SILC methodology in Albania for providing panel-type data.

The purpose of these data goes beyond the measurement of poverty indicators and it is necessary to include the GINI index or other similar indices, such as PALMA, to measure income distribution and inequality. It is important to review social policies in Albania, as well as the comparison of inequality indices, measured by international reports. Social protection policies in Albania are focused on very basic elements of insurance and social assistance. At 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 suffers from the lack of reform of the national employment systems and collective contracts, which in the absence of the influence of the trade unions are 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 consider the effects of informality and nepotism in the labor market. On the other hand, a great deal of attention has been paid to the reform of the economic assistance system in a program of social re-integration. 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 determined to cover this type of assistance is aimed at the groups most at risk of social exclusion. The number of families that benefited from social assistance from 2013 to 2018 has decreased, although there is no data on whether the level of well-being has increased for families in general. Pensions as a form of social benefit have a big difference in the amount of pensions received in urban and rural areas.

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<sup>5</sup> Analysis of comprehensive economic development policies as a new instrument for economic and social integration disadvantaged groups in society, Agenda Institute, 2018

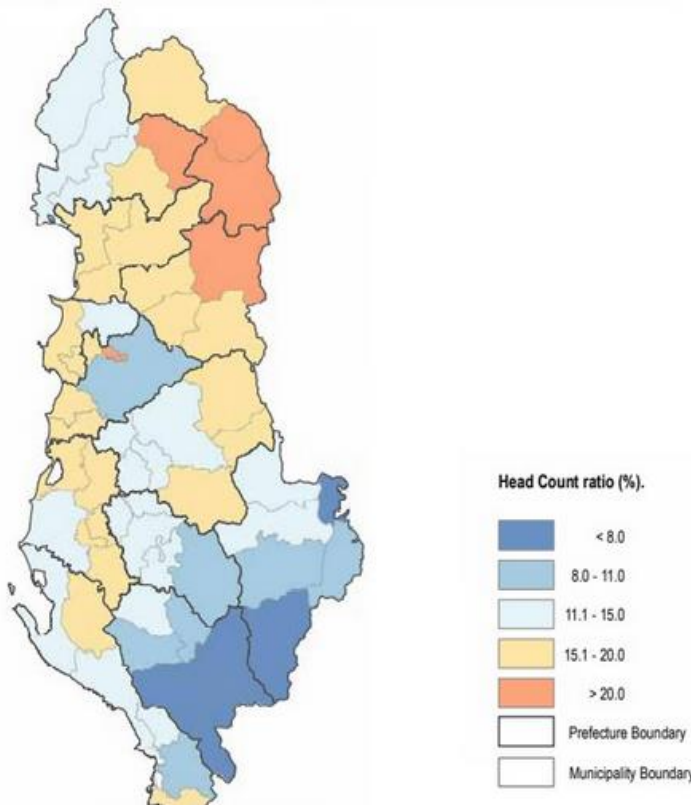


Figure 3 :The inequality map of the municipalities (2018)<sup>6</sup>

Albania is one of the countries with the lowest value of social expenditures. Referring to the study of the Agenda Institute (2018), expenditure on labor market policies in Albania amounted to about 0.15% of GDP in 2012, compared to the average of 0.19% in European countries. This value is far from the average of OECD countries and reiterates the lack of resources for social spending in our country. 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. The trend of inequality has suffered a slight decrease until 2012. In Albania, this index fluctuates around the value of 1.7, while the share of income owned by the fifth quintile is almost five times that of the income owned by the first quintile.

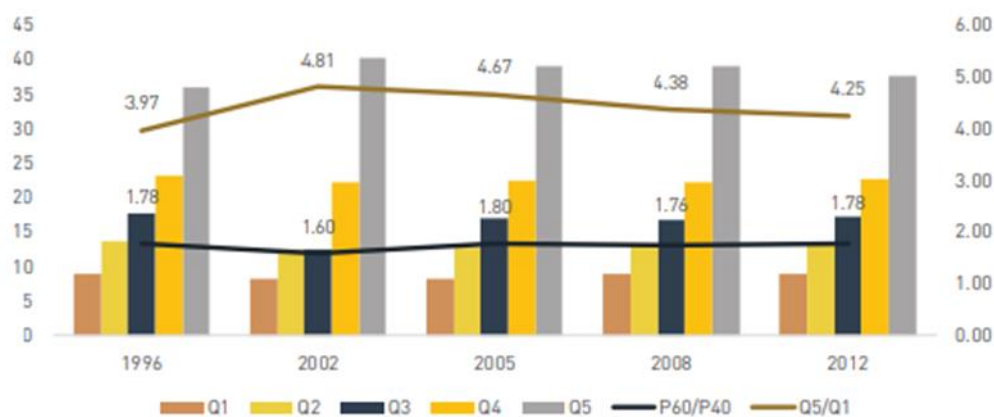


Figure 4: Income distribution by quintiles<sup>7</sup>

It turns out that the level of inequality in Albania is relatively high, but its measurement is still difficult. The main sources of information on inequality indicators have been the reports of the World Bank or

<sup>6</sup> INSTAT, 2018

<sup>7</sup> Source: Agenda Institute, 2018

UNDP. 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.

#### IV. CONCLUSION

The paper estimated that social policies have an impact on the redistribution of income and the inequality that it brings as a result of this redistribution. The analysis focused on the classification of social welfare systems based on their political and economic characteristics. Income distribution affects the level of inequality, but, on the other hand, the design of productive policies is necessary to neutralize these effects. of social systems and inequality suggested some findings, which served for the comparative analysis of the data and to test their compatibility with the analytical findings. According to the 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. (4) The level of inequality in Albania is relatively high. (5) 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.

Based on the results of European countries, policies should be focused towards comprehensive policies, paying special attention to labor market policies, with a focus on young people.

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