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Original scientific paper

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SOCIAL TRANSFER EXPENDITURES IN REPUBLIC OF MACEDONIA, SOUTH EAST EUROPEAN COUNTIRES AND EU COUNTRIES

Abstract

Social transfers and expenditures as a form of social protection are essential for each economy and society to function properly. Social transfers as a form of social protection can vary in dependence of the economic system and development of the country, but initially their purpose is relatively the same. Tackling poverty and enabling efficient social redistribution of the income among the households are one of the main results of the existence of an efficient social protection system. The economies of today are confronted with a serious challenge of tackling the rising poverty and income inequality in the world and one of the means of achieving that is through the social transfer system.

In this article a comparison analysis is made between the social transfer expenditures of Republic of Macedonia, South East European countries and EU countries in order to determine the trends and amount of social transfer

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expenditures in the countries. From the research in this paper it can be seen that Republic of Macedonia has considerably smaller social transfers per capita compared to other countries taken into consideration for the research. More so Republic of Macedonia is the only country form the countries that are part of the comparison analysis that accomplishes negative growth of the social transfer expenditures as a percentage of GDP in the period of year 2001 till year 2014. Knowing the fact that the more equal distribution of assets in a current country can lead to increased consumption, sustainable growth and increases social welfare, Republic of Macedonia can do better if the expenditures for social transfers as a percentage of the GDP are to increase, even on expense on some other public or budget expenditures.

Key words: social protection, social transfer, social expenditures, comparative analysis, inequality

JEL classification: H55

Methodology

The research in this article is conducted using both quantitative and qualitative methods for research. Statistical method as a quantitative method is used to collect the data necessary for comparison of the social transfers of the south-east European countries and countries member of European Union. The data was gathered from the data base of World Bank, OECD data base and Eurostat online sources, research in the field and other written sources. Comparative method is used to compare the social transfer expenditures for Republic of Macedonia, South-east European countries and the countries of European Union. Besides the comparative method, other qualitative methods are used in the process of research and conclusion findings, such as: analytical method, method of deduction and method of induction.

Introduction and theoretical review

Through the past few decades the problem of income inequality and welfare segregation has raised itself into the latter as the most significant for the economies of the countries worldwide. The recent estimates show that the world's 85 richest people have the same amount of wealth as the poorest 50 percent (3.5 billion people)[4]. Income inequality is a broader concept then poverty. It defines the level of income distribution in a current country. Inequality appears to be increasing in many domains of human welfare including increased economic and social inequality. Even tough inequality can be foreseen as a necessary part of the rewording structure of the modern economic systems which promotes innovation, individuality and entrepreneur initiative; beyond a certain point it can become harmful for the economy and society as hole. High social and economic inequality can lead to high level of poverty and social exclusion, which further compromises the economic growth of the countries.

Social and economic inequality can be a product of variety of different factors in the country's economy. More so redistributive policies which are the central theme of many economic researches through the past decades implicate to the utmost importance of the subject of economic and social inequality, and its effect on the economic development, sustainability and growth. Arthur Okun in his book on the tradeoffs between efficiency and equity and on the efficiency "leaks" showed that efforts to reduce inequality can be transferred into creating more inequality. Examples could include taxes on activities with negative externalities paid mostly by the better-off but harmful to the poor (such as, perhaps, excessive risk-taking in the financial sector), cash transfers aimed at encouraging better attendance at primary schools in developing countries, or spending on public capital or education that benefits the poor[5]. Also some authors believe that government spending in social transfer issues such as healthcare, education, unemployed benefits, child and family allowances and social retirement benefits can also present a tool for decreasing the economic and social inequality. However, the most important issues connected with the degree of social and economic inequality still remain the factor of unemployment and the degree of poverty in one society.

Social protection is an essential transfer system that relocates income both within and among different households. The main purpose of the social transfers and social protection is to:[6]

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4 http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequlity-200114-summ-en.pdf (accessed 15 September 2015)

5 Johnatan D. Ostry, Andrew Berg, and Charalambos G. Tsangarides, "*Redistribution, Inequality and Growth"*, International Monetary Fund, 2014, pg. 11:21

6 Michael Cichon, Wolfgang Scholz, Arthur Van de Meerendonk, Krzysztof Hagemejer, Fabio Bertranou, Pierre Plamondon, "*Financing social protection",* International Labor office Geneva, 2004, pg. 12

- Guarantee a minimum level of consumption for people living in poverty or on the threshold in it;
- Replace wholly or in part the income lost as a result of certain contingency, or
- Achieve a higher level of economic and social equality

Furthermore social protection and social transfers can have indirect benefits on the society, like improving the people's productive capacity and helping people to move out of poverty traps by addressing credit constrains.[7]According to James Scot Brooks social transfers also help improve the allocation of household resources in one economy and thus increase overall consumption and support the growth of local economies. However, in order to achieve the maximum growth effects of social transfers it's important to precisely define the context, timing, duration, eligibility and choosing the right recipients for the social transfers. These principles according to the author James Scot Brooks are sufficient to establish an efficient social transfer system for the benefit of one society and economy. Brunori and O'Reilly provide another definition of social protection mainly stating that "social protection is a specific set of public actions to address the vulnerability in people's life via social insurance, offering protection through risk and adversity throughout life; via social assistance, offering payments to support and enable the poor; and via social inclusion efforts that enhance the capability of the marginalized groups to access social insurance and assistance"[8]. UNICEF defines social protection as the set of public and private policies and programs aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation[9].

According to Malte Luebker the system for tackling high social inequality can be achieved through two principal mechanisms. The first mechanism that Malte Lubker considers is the social security systems which can benefit those with the lowest private sector incomes and the second mechanism being progressive tax systems which narrow the gap between rich and poor and thus reduce the income inequality[10]. Thomas Piketty in his

[7] James Scot Brooks, "Social transfers and growth in poor countries", World poverty Institute, 2010 pg. 61:67

[8] Brunori P., O'Reilly M., "Social protection for development: A review of definitions", European report on development, 2010, pg.12

[9] Winder, Yablonski, "Integrated social protection system", Social Protection Strategic Framework, UNICEF, May 2012, pg 13

[10] Malte Lubker, "*The impact of taxes and transfers on inequality*", International Labor Office Geneva, 2011, pg. 2:3

book, states the differences between the social care in the developed countries on one side and social care of the countries in development on the other. Several differences which mostly concern the amount of social transfers and the practices of distribution of the same makes the system of social transfers in the developed countries much more efficient in the field of regulating the social and economic inequality. Most of all the reconstruction of the methods of the pension systems and methods of the distribution of unemployment transfers presents the main difference between the two social care systems. The developed countries because of their available assets and efficiency can redistribute the income more efficiently than the countries in development, leaving the second ones still dependent from the first. This dependency further increases the economic and social inequality between the countries as well as their social care systems[11].

The difference between the development in the economic systems and social economic policies in the countries had been a cause for development of the four different models for redistribution of the assets, i.e.:[12]

1. "Nordic model" characterized by large and mostly universal cash transfers, a high level of spending on in-kind services and a tax mix which promotes redistribution (all Nordic countries and also Belgium are in this group);
2. A "Continental European model" characterized by large cash transfers with the lion's share for old-age pensions – i.e. redistributing income mostly over the lifecycle instead of across individuals – and a tax mix which does not promote redistribution across individuals, reflecting a small role for the personal income tax (Austria, France and Germany are representative);
3. An "Anglo-Saxon model", characterized by small cash transfers, and a tax mix which promotes income redistribution. This model can be divided in two sub-groups: those countries with transfers highly targeted on low-income groups (Australia and New Zealand being examples) and those countries characterized by little progressivity of cash transfers which are largely spent on old-age pensions (Japan and the United States are in this sub-group);

[11] Thomas Piketty, "Capital in the twenty first century" President and Fellows of Harvard College, 2014, pg. 332:345

[12] Isabelle Joumard, Mauro Pisu, Debbie Bloch, "*Tackling income inequality-The role of taxes and* transfers", *OECD Journal: Economic Studies* published online first (http://dx.doi.org/10.1787/eco_studies-2012-5k95xd6l65lt), *pg. 3:4*

4. A lower-income group, where the welfare system is not well developed. Spending on transfers and the level of taxation are considerably below the OECD average, with a heavy reliance on consumption taxes.

According to the data gathered from the Statistical office of Republic of Macedonia, the country belongs into the lower income group countries concerning the model for redistribution of the income in the country. More so the heavy reliance on the consumption (indirect taxes) confirms that the place of Republic of Macedonia is in the lower income model group of countries. The subject of this paper concerns the social transfers as a part of the social protection programs in Republic of Macedonia, South Eastern Europe countries and EU countries. Also the main goal is to make a comparative analysis of the social transfer expenditures in Republic of Macedonia, South Eastern Europe countries and EU countries.

1. REVIEW OF THE SOCIAL PROTECTION SYSTEM AND SOCIAL EXPENDITURES OF REPUBLIC OF MACEDONIA, SOUTH-EAST EUROPEAN COUNTRIES AND EU 28

As the impact of the financial and economic crisis was felt across the world, the need for social transfers towards the most effected layers of the population has increased. With the increase of the number of socially endangered people, the amounts of the social transfers had also increased in the past few years. According to the date from Eurostat the expenditure on social protection relative to gross domestic product (GDP), has increased by 2.8 percentage points between 2008 and 2009, and continued to rise in the past years.[13] Besides the rise in the social expenditures of the countries in Europe and worldwide, in order to tackle the imposing social and economic inequality new methods and policies for social transfers were also introduced. According to the European legal framework expenditure on social protection includes: social benefits, administration costs (which represent the costs charged to the scheme for its management and administration) and other expenditure (which consists of miscellaneous expenditure by social protection schemes, principally, payment of property income).

Social protection benefits are direct transfers, in cash or in kind, by social protection schemes to households and individuals; the purpose of the

[13] http://ec.europa.eu/eurostat/statistics-explained/index.php/Social_protection_statistics

transfers is to relieve the recipients of the burden of one or more of the defined risks or needs. Social benefits are paid to households by social security funds, other government units, non-profit institutions serving households (NPISHs), employers administering unfunded social insurance schemes, insurance enterprises, or other institutional units administering privately funded social insurance schemes. Social benefits are recorded without deduction of taxes or other compulsory levies payable by recipients.[14]

Social protection benefits are classified according to eight social protection functions (which represent a set of risks or needs):[15]

- sickness / healthcare benefits — including paid sick leave, medical care and the provision of pharmaceutical products;
- disability benefits — including disability pensions and the provision of goods and services (other than medical care) to the disabled;
- old age benefits — including old age pensions and the provision of goods and services (other than medical care) to the elderly;
- survivors' benefits — including income maintenance and support in connection with the death of a family member, such as a survivors' pensions;
- family / children benefits — including support (except healthcare) in connection with the costs of pregnancy, childbirth, childbearing and caring for other family members;
- unemployment benefits — including vocational training financed by public agencies;
- housing benefits — including interventions by public authorities to help households meet the cost of housing;
- social exclusion benefits not elsewhere classified — including income support, rehabilitation of alcohol and drug abusers and other miscellaneous benefits (except healthcare).

Schemes responsible for providing social protection are financed in different ways. Social protection receipts comprise social security contributions paid by employers and protected persons, contributions by general government, and other receipts from a variety of sources (for example, interest, dividends, rent and claims against third parties). Social contributions by employers are all costs incurred by employers to secure entitlement to social benefits for their employees, former employees and their dependents; they

[14] Ibidem
[15] Ibidem

can be paid by resident or non-resident employers. They include all payments by employers to social protection institutions (actual contributions) and social benefits paid directly by employers to employees (imputed contributions). Social contributions made by protected persons comprise contributions paid by employees, by the self-employed and by pensioners and other persons.[16]

In Republic of Macedonia according to the Law of Social Protection, social protection is a system of measures, activities and policies for preventing and overcoming the basic social risks such as, poverty reduction and social exclusion and also strengthening the social capacity for social endangered people. Social risk in terms of this law means:[17]

- Health risks (illness, injury and disability);
- Old age and aging;
- Single parent family;
- Risks of unemployment, loss of income for sustenance on work, etc.;
- Risks of poverty and
- Risks of a different kind of social exclusion.

From the legal framework of the social protection in the Republic of Macedonia and EU countries it can be seen that the socio-economic problems that social protection addresses are similar and comparable. As an extension to this on the table presented below, the total social transfer expenditures as a percentage of GDP are shown for Republic of Macedonia, South-east European countries and EU 28. From the research results presented below it can be seen that Republic of Macedonia with 7.96% on average separates the smaller percentage of their GDP as social protection expenditures. On the other side Greece and EU 28 countries spend 28.3% and 28.1% on average respectively form their GDP for the purposes of social protection, in comparison to the countries taken into consideration for the observed period. According to the data presented in Table 1, Romania with 14.6% on average is the closest country to Republic of Macedonia in terms of social transfer expenditures. However the percentage that Romania separates for the purpose of the social transfers is still twice as big as the one of Republic of Macedonia.

[16]. http://ec.europa.eu/eurostat/statistics-explained/index.php/Social_protection_statistics
[17] Law of Social protection, Official Gazette of Republic of Macedonia number 79, 24 of July 2009, pg.1:2

Table 1 Review of the social transfers as a percentage of GDP in the south-east European countries, EU countries and Republic of Macedonia

Year	Rep. of Macedonia	Serbia	Bulgaria	Greece	Croatia	Slovenia	Romania	EU 28
2001	10.62%							
2002	10.64%			24.0%		24.3%	13.6%	
2003	10.15%			23.5%		23.6%	13.1%	
2004	9.84%		15%	23.6%		23.3%	12.8%	
2005	9.54%	23.8%	15.1%	24.9%	17.5%	23.0%	13.4%	27%
2006	9.34%	24%	14.2%	24.8%	17.7%	22.7%	12.8%	26.6%
2007	7.55%	24.6%	14.1%	24.8%	18.5%	21.3%	13.6%	26.1%
2008	5.67%	23.2%	15.5%	26.2%	18.7%	21.4%	14.4%	26.7%
2009	5.06%	24.6%	17.2%	28.0%	20.8%	24.2%	17.2%	29.6%
2010	6.35%	23.2%	18.1%	29.1%	21.0%	25.0%	17.6%	29.4%
2011	6.15%	24.4%	17.7%	30.2%	20.7%	25.0%	16.4%	29%
2012	6.33%	25.1%	17.4%	31.2%	21.2%	25.4%	15.6%	29.5%
2013	6.26%	25.1%	17.5%	31.8%	21.9%	25.5%	15.1%	29.1%
Average	**7.96%**	**24.2%**	**16.2%**	**28.3%**	**19.8%**	**23.7%**	**14.6%**	**28.1%**

Source:http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1;
State Statistical Office of Republic of Macedonia

The review presented in Table number 1 can also be used for presenting the growth or decline of the social protections expenditure of the countries taken into consideration for this research. The year to year growth or decline of the countries for the period of the observation is presented in the Table number 2.

In order to equalize the output of the research because of the lack of data for some countries the time period of the observation is narrowed to 9 years. According to the data presented in Table 2, Republic of Macedonia is the only country from the countries taken into consideration that has decline in the expenditures for social transfers. Republic of Macedonia also records the highest decline from year 2006 to year 2007 with 33% decline. The average decline of the social expenditures for Republic of Macedonia is recorded to be 7% on an annual level. However Republic of Macedonia also records the highest growth of the social transfers in one year with 20% growth. The great oscillations of the social transfer expenditures in Republic of Macedonia point to inconsistent social transfer politics, which can further lead to broadening the gap of poverty and inequality.

Table 2 Review of the growth of social transfer expenditures in the south-east European countries, EU countries and Republic of Macedonia

Year	Rep. of Macedonia	Serbia	Bulgaria	Greece	Croatia	Slovenia	Romania	EU 28
2005	-2%	1%	1%	0%	1%	-1%	-5%	-2%
2006	-24%	2%	-6%	0%	4%	-7%	6%	-2%
2007	-33%	-6%	-1%	5%	1%	0%	6%	2%
2008	-12%	6%	9%	6%	10%	12%	16%	10%
2009	20%	-6%	10%	4%	1%	3%	2%	-1%
2010	-3%	5%	5%	4%	-1%	0%	-7%	-1%
2011	3%	3%	-2%	3%	2%	2%	-5%	2%
2012	-1%	0%	-2%	2%	3%	0%	-3%	-1%
2013	-2%	1%	1%	-2%	1%	-3%	-4%	-2%
Average	**-7%**	**1%**	**2%**	**2%**	**3%**	**0%**	**1%**	**1%**

Source:http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1;
State Statistical Office of Republic of Macedonia

Despite the case of Republic of Macedonia, other countries taken into consideration for this research have small but consistent growth of their social transfer expenditures. The highest growth between them is achieved by Croatia with 3%, and the lowest growth, or in the case no growth at all in the social transfer expenditures is recorded by Slovenia. For the purpose of the research and broadening the comparison of the social transfer expenditures of the selected countries, below a table is presented which shows the indicator for social transfers per capita in the countries included in the research. The indicator that is per capita social transfers equalizes the countries total social expenditures by dividing them with the total number of the population. Large and economic developed countries can make larger expenditures for social transfers as a percentage from GDP, according to that the indicator that is social transfer expenditures per capita tends to give more equal data for the purpose of comparison. Firstly, the grater the number of population is in the country the greater the expenditures for social transfer will be, and second, more developed countries can have a larger amount of their GDP transferred to their population. However presenting the social transfer expenditures per capita can present a review of this issue which is the most comparable.

Table 3 Review of the social transfer expenditures per capita in the south-east European countries, EU countries and Republic of Macedonia in euros

Year	Rep. of Macedonia	Serbia	Bulgaria	Greece	Croatia	Slovenia	Romania	EU 28
2006	264.86	584.50	495.02	4,640.10	1728.15	3,512.13	591.29	6,176.74
2007	240.68	622.45	576.96	4,950.08	1985.32	3,648.36	809.40	6,528.42
2008	179.79	715.12	732.31	5,470.76	2,070.10	3,937.99	976.84	6,747.57
2009	169.81	854.62	807.72	5,790.63	2,167.64	4,210.18	998.03	7,007.50
2010	222.72	977.30	880.93	5,797.11	2,177.74	4,322.33	1,082.81	7,261.32
2011	218.23	1,049.66	928.11	5,673.12	2,129.78	4,409.55	1,070.21	7,379.28
2012	245.01	1,058.22	952.24	5,471.78	2,150.06	4,358.77	1,079.5	7,638.52
2013	253.80	1,113.13	1,017.13	5,532.80	2,218.95	4,445.68	1,081.05	7,859.34
Average	**224.36**	**871.88**	**798.80**	**5,415.80**	**2,078.5**	**4,105.62**	**961.13**	**7,074.84**

Source:http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tps00098&plugin=1;

State Statistical Office of Republic of Macedonia

From the presented data in Table 3 it can be seen that Republic of Macedonia has by far the smallest per capita social transfer from the countries included in the research. This data only confirms what previously stated data had shown, i.e. that Republic of Macedonia has relatively small social-economic transfers then other countries taken into consideration, and furthermore these expenditures are in decline. The highest per capita social transfers according to the data in the Table number 3 can be seen in the EU 28 countries which average 7,074.84 euros per capita on annual level. This can be connected to the low socio-economic inequality that EU 28 countries have and also the problem of growing inequality in Republic of Macedonia.

Conclusion

Social transfer expenditures are vital for the economy. Their impact on the social welfare and inequality is considerable and significant. Social transfer expenditures can come in various forms dependent on the purpose for the social transfers and the method used to deliver the transfer to those in need. Countries of European Union and Republic of Macedonia have nearly the same structure for social transfer, i.e.: sickness / healthcare benefits, disability benefits , old age benefits, survivors' benefits, family / children benefits, unemployment benefits, housing benefits and social exclusion benefits not elsewhere classified. However according to the research in this paper Republic of Macedonia with 7.96% separates the least assets for social transfers as a percentage of their GDP in comparison to the other countries taken into consideration for this research. Republic of Macedonia realized decline in the social expenditure transfers as a percent of GDP, with the average annual decline determined to -7% in the previous 9 years. Still knowing that Republic of Macedonia belongs into the lower income group countries concerning the model for redistribution of the income in the country it is expected that the country can have fewer financial possibilities to assert higher social transfers expenditures. The more developed countries with a larger population separate a higher amount of expenditure for social transfers as a percentage of the GDP. But concerning is the fact that Republic of Macedonia also has the smallest social transfer per capita than the other countries taken into consideration. According to the research Republic of Macedonia realizes only 224.36 euro per capita social transfers annually, as an average value of the period of observations that is 8 years. Knowing the fact that the more equal distribution of assets in a current country can lead to increased consumption, sustainable growth and increases social welfare, Republic of Macedonia should increase the expenditures for social transfers as a percentage of the GDP, even on expense on some other public or budget expenditures. This will eventually lead to better redistribution of the income, thus increasing the consumption and ultimately creating better social and economic equality and sustainable growth of the economy.

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