

# ALBANIA'S ECONOMIC POLICIES IN THE CONTEXT OF EUROPEAN SOCIAL MODEL

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## Abstract

This paper examines the key aspects of the main social insurance programs development in Europe, and in Albania, during different periods of time, in order to face the elements of this model, as well as the respective development.

Employment and a welfare regime are both the key elements of the social model. The first element refers to the way how industrial relations are regulated, the skills development and wage settlements. The second element refers to the way how social protection is organized and social services are provided by the state, market and family in the production and distribution of welfare. Employment and welfare regimes are related, but not necessarily coherent in a wide period and intensive institutional change.

The paper notes that dimension of the state welfare in the economic system is a sensitive topic in European integration. This is due to the emphasis given to the purpose of the competition, closely linked to the EU, as well as the strong relation between European social model and integration in the European Union, whose candidate status also Albania holds.

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**Keywords:** European social model, insurance, pension reform, welfare, Albania

## Introduction

European social model is used to describe the European experience and at the same time to promote sustainable economic growth and social cohesion. The concept's analysis is important for the identification of the main meanings. There are uncertainties in the way is used the concept of a European social model. The general idea of creating such a model was that economic and social progress must go hand in hand; growth must be combined with social cohesion.

This paper is focused on giving a brief description of the term *European social model* and showing the main classification of it. The author

shares the idea that despite the main models, there may be talked for a new model, that of the South East Europe countries.

There are four types of models: *Nordic model* with a high level of income redistribution, social inclusion and universality, strong social dialogue, progressive taxation. Nordic model has higher levels of social protection spending. Government intervention in the market economy is low. *Liberal model* (Anglo-Saxon)-emphasizes the responsibility of individuals for themselves, a minimum social protection is provided for the poor, the unregulated market work, the state encourages commercial actors. *Continental European model* - German model of social insurance coverage is characterized by well-being, which is largely funded by taxes. Employment rates are relatively low and there are demographic challenges of aging population. *Mediterranean Model* is the last one. It is characterized by low level of social transfers, the employment rate of women is low, but trade unions still play an important role.

The author gives an overview of the social system in Albania, focusing on pension's reforms and insurance in general. Social security schemes of public health in Albania (mandatory, voluntary, supplementary) are funded by contributions (PAYG) with separate budgets of the economically active population contributions (employers, employees and self-employed). In addition to pensions, social security system provides benefits in the event of illness or temporary incapacity to work, and maternity benefits. How is the situation in Albania? Do we have e European social model or it is just a utopia? What should Albanian government improve in order to come closer to this model? These are the concerns of Albanian society.

### **The meaning and characteristics of the European Social Model**

As European Union is consisted of 28 member countries with different cultures and different stages of their development, it is very difficult to find a common social denominator that characterizes all these countries. There are uncertainties in how is used the concept of a European social model. To talk about a distinct European social model is in some ways clearly contrary to the continuing structural and institutional differences between countries in areas such as social security (Montanari, 2001), family policy (Ferrarini, 2006) and minimum income protection (Nelson, 2006). On the other hand, it does not matter if there are develop different institutional policies as long as they offer similar results.

The model is defined as "a way / path characteristic in which member countries solve social problems" (Social Europe Guide: Social Dialogue, 2012 p.28). According to this definition Member States cooperate with others to create different instruments to cope with different social situations

and solve them. European social model is used to describe the European experience in promoting sustainable economic development and social cohesion.

Jacques Delors, invented the term "European social model" in the mid-90s to create a form of clean alternative to American capitalism. "Social cohesion should be considered as a prerequisite for a sustainable and dynamic economy. Supporting new ways of financial investment and the fight against poverty and inequality will be the criteria for the success of the EU. " Social Europe Guide: Social Dialogue, 2012 p.28)

Jacques Delors describes social cohesion as part of the European social model, designed in four main elements: a) the market; b) state, providing general guidelines for the development and regulation of market failures; c) social contract; d) social welfare state, guaranteeing minimum rights for citizens. (Social Europe Guide: Social Dialogue, 2012 p.58)

One of the initial objectives of the EU is to create a society of equal living wage, to end poverty, to guarantee fundamental human rights, essential services and salaries that allow a good life for every individual. At this point, there are identified five essential elements:

***Social rights***, including the right of association, the right to strike, protection against unjustified termination of employment, the right to good working conditions, equality and non-discrimination.

***Social protection***, provided through universal systems and measures, such as minimum wages and progressive taxation.

***Social dialogue*** on the right to reach a collective agreement when the employee representatives and consulted among themselves.

***Social regulations*** regarding the coverage of employment, for example, health and safety, limiting the number of working hours, vacation, occupational safety and equal opportunities.

***State responsibility for full employment***, providing general interest's services, economic and social cohesion.

## **European social models**

The first model, the Nordic (Scandinavian) is a typical welfare state, is generally seen as the most successful model in adapting demographic changes of a globalized world. (Timonen, 2001) With the changes made, the "income security" for example, is reduced to 80% in insurance for sickness and unemployment insurance. (Lundberg, 2001) Recently, some services for the elderly are privatized (Gould,1999) Low Economic growth in the country and the fact that the old system had lost its quality of justice, are other important reasons that made this reform necessary. The objective for pension reformers is drafting a fiscally sustainable pension. The key elements of the

new system are associated with retirement income, pension and annuity prior warranted<sup>107</sup>.

Second welfare model, **the Anglo-Saxon** has managed to expand employment and increase employment in line with the market and to keep taxes low, but at the same time has taken a considerable number of critics to the levels of inequality model produces. Wage differentiation and flexible employment conditions have greatly facilitated the expansion of private sector services and the system seems to encourage growth in high-tech branches of industrial and financial services, where success depends on the creativity and motivation of highly skilled professionals, the availability of capital, and innovation is attributed to unregulated markets. (Rasmussen 2008, p.9)

Despite the inherent shortcomings of the Anglo-Saxon system, the system that suffers more the modernization in the world seems to be the **Continental**, a European social welfare system implemented in Germany, France, Spain, Belgium and Italy. (Hermann, C., Mahnkopf, B, 2010). Although it retains moderate to high levels of taxation and a high level of social spending, inefficient methods of this model are incompatible with today's changing society and causes considerable strain on its model.

The last one is the **Mediterranean model** (Greece, Italy, Portugal and Spain). Within this social model costs are concentrated in old age pensions and allow a high segmentation of rights. Wage structure is, at least in the formal sector, covered by collective bargaining.

## **Albania and social model**

### **Historical development of social insurance in Albania**

Social security in Albania is one of the components of the welfare state, alongside health care insurance, assistance and family benefits. The Constitution of the Republic of Albania, in the social objectives stated that the State, within its constitutional powers is aimed at the highest standard of health, physical and mental potential, care and support for the elderly, orphans and the disabled, health rehabilitation, specialized education and integration in society of disabled people. Article 52 of the Constitution provides that everyone has the right to social security in old age, or when they are unable to work, according to a system set by law. Everyone, who has no work for independent reasons of his/her will, and when no other means, is entitled to assistance under the conditions provided by law. Compulsory social security is regulated by law no. 7703, dated 11.05.1993 "On Social Insurance in the Republic of Albania" (amended). The basic

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<sup>107</sup> Ministry of Health and Social Affairs, "Old Age Pensions in Sweden", No.4, Fact Sheet [FS], Stockholm 2000, The Printing Works of the Government Offices.

principle of compulsory social insurance scheme's operation is the principle of solidarity, accordingly an employee, self-employed or employer pays contributions; and with contributions collected are paid benefits to those who are unable to work due age, illness, etc.

The right to social security, as a right of the individual to protection in case of old age, disease, etc., is a constitutional right and is part of the group "*The economic and social rights of the Constitution*", therefore the social insurance right is an important part of the corpus of rights arising from employment.

Social security in Albania has a history of its own. Starting from 1912, the creation of the Albanian state, in parallel with the constitutional acts that have emerged in Albania (basic act of a State which provides fundamental rights, including the right to social security), have given the legal acts in the field of social security, according to an order that follows the historical developments of social security in Albania.

The current social security system in Albania began in 1993, with the enactment of Law no. 7703, dated 11.05.1993 "On Social Insurance in the Republic of Albania". The current scheme of compulsory social insurance in Albania is a non-profit scheme, protecting the incomes of persons employed in case of illness, unemployment, maternity, accidents at work / occupational disease, old age, invalidity or loss of breadwinner and other persons; economically active (self-employed and employers) in case of pregnancy, age, disability and loss of breadwinner. The scheme of mandatory social insurance in Albania is a scheme based on the "pay-as-you-go" principle of individual responsibility for social risks of the future and the principle of solidarity between generations. This is a scheme funded by contributions from employers, employees and self-employed.

The existence of a voluntary scheme relates to objectively cases, that a person cannot be part of a compulsory scheme and therefore may allow voluntary payment of contributions available for the benefit of the compulsory social insurance scheme.

## **The pension system in Albania**

### **The current pension system**

Law no. 7703 dated 11.05.1993 "On Social Insurance in the Republic of Albania" (amended), created a mandatory system, public and universal social security coverage and a voluntary supplementary column, which currently does not appear developed in all measures.

Binding system consists of:

i. **A compulsory social security scheme** administered by the Social Security Institute and covers the employees in the state and the private sector

and self-employed in urban and rural areas, provided they have contributed for a specified time in the scheme.

ii. **A voluntary scheme** that includes those who are not insured, they have been and want to continue to be as well as those that are not covered by the law, including university students.

iii. **A supplementary scheme** for persons who perform specific functions or constitutional tasks and persons with scientific titles; state employees, military personnel serving in Armed Forces structures, employees of the State Police, the Republican Guard, the State Information Service, the Police, Prisons Police, Fire Protection and Rescue Service employees for Complaints and Internal affairs. Supplementary pensions are financed directly from the state budget.

iv. **Special Pension** for those who participated in the war, those who have titles in the field of culture, arts, economy and politics as well as persecuted by the totalitarian regime. Special pensions also directly financed from the state budget.

v. **Social Pension**, which means a social pension, is a benefit that is given to every Albanian citizen who has reached the age of 70, is a permanent resident in Albania for at least the last five years and is not eligible for any compulsory pension scheme or social insurance and has no income or everyone who benefits from any other source, but the incomes are lower than the income that provides pension<sup>108</sup>.

vi. **The professional funds and voluntary pension funds**, which are regulated by a special law.<sup>109</sup>

Social security law gives protection to employees in case of illness, unemployment, accidents at work and in the case of maternity. Currently, social security contribution rate is 24.5%, and from this, 21.6% is paid to the pension branch. Public pension scheme offers three types of pensions: old age pension, disability and family pension.

Pension scheme in Albania is financially balanced. This financial instability is the result of the rapid growth of the pensions. Other reasons are the low number of participants, failure to declare real wages, the relatively high number of pensioners compared to the new age population, and low age of retirement for some specific categories, demographic changes, the level of unemployment and the high level of labor force migration. Albania has a young population, but long-term forecasts indicate that in the future we will have an aging population, which is reflected in an increasing share of the population above retirement age to total population. This indicator has

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<sup>108</sup> Article 5.1, Law no. 104/2014 On amendments and additions to Law no. 7703 , dated 11.5.1993 , " On Social Insurance in the Republic of Albania " , amended.

<sup>109</sup> Ibid, 5.2

increased almost throughout the forecast period from 14.9% in 2012 to 25% nowadays, supposed to be at around 35.0% in 2080.

### **Employment and unemployment**

The fall of the communist regime in Albania and the transition from a state-controlled economy to a market economy brought drastic changes in the functioning of the labor market and hence employment policy restructuring. These transition years have exposed Albania to major difficulties in adapting the reality of a free market economy. In these circumstances, the country has experienced repeated crises of unemployment and low activity of labor. Although, one can notice an improvement in the labor market situation, mainly thanks to several waves of economic growth over the years; major challenges in content and reducing unemployment continue to be present. In parallel with these challenges, the intensification of the European integration process increases the pressure and responsibility of Albania to ensure a more efficient labor market. Expectations in this regard have dealt mostly with the implementation of effective employment policies, able to address the problems highlighted by the European Commission and other stakeholders. They also mean institutional readiness in the country to be able to afford the obligations of EU integration and the opportunities arising. In particular, the European Union supports the efforts of Albania to meet the requirements of membership through the Instrument for Pre-Accession (IPA), a financial instrument built around five components and was applied during 2007-2013.

In the current situation of the labor market, the employment of women is decreased because of: (1) the closure of many previous industrial activities established before the 90s, with the high number of women employed in them; (2) development of economic activities which are more oriented toward employment of men as trade or construction; (3) rural-urban movement, which did not give more opportunities to women coming from rural areas to enter the urban labor market, due to the low level of education, the current level of technology, etc.

The male participation rate in the labor force has been historically higher than the participation rate of women and the transition led to the hiring of more women than men. In 2012 the participation rate in the labor force was 65.5 percent (74.3 percent for males and 56.6 percent for women), three percentage points lower than that recorded in 2011<sup>110</sup>. Low activity labor market is influenced by a variety of factors, such as higher

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<sup>110</sup> <http://www.instat.gov.al/al/themes/tregu-ipun>.

participation of young people in education, or the fact that a large number of young men and women are increasingly discouraged by the job search<sup>111</sup> etc.

Creation of new jobs in non-agricultural private sector with more productivity and higher pay constitutes an important element for reducing poverty and improving living standards. The Albanian labor market is still suffering high level of informal market. Moreover, there is little mobility between the formal and informal sector. Providing more favorable incentives for the formalization of jobs, more flexible contracting would help particularly the most vulnerable employees. People with low educational level encounter considerable problems in the labor market, where there is a concentration of people with minimal education or no education in the informal sector. The level of education is closely related to income level. Widening access to education and training is very important.

### **Challenges in the system of social protection and social assistance**

Albania is a country with many natural and human resources and is committed to pursuing the process of European integration through reforms. However, while some integration processes have moved faster than in other countries, others have lagged behind. One of these processes that needs more attention is the systemic reform of Albanian social services. The system of social protection for the unemployed is relatively weak, since only a small fraction of the unemployed qualify for unemployment insurance benefits. This is explained by the fact that the current system provides benefits only to those who pay social contributions in the last year of their employment.

Additional challenges that is facing the current system in Albania are the provision of social protection benefits for the entire population in the future, which has been a key aspect of the previous system, at least for old-age pensions. In addition, the provision of benefits criteria currently not adequately secured, mainly from unemployment insurance and social assistance together with the response to new social problems of women, children, persons with disabilities, migrants and other vulnerable groups through the integration of various benefits, the payment of services, national and local level, constitute additional challenges to the system<sup>112</sup>.

In the context of economic and social problems, values and traditional roles in the family, isolation and lack of education / health and other services, as well as demographic trends reduce the number of births, require intervention to support the family, parents and development of early

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<sup>111</sup> “Aftësi më të larta dhe punë më të mirë për të gjithë femrat dhe meshkujt”, MMSR, Tirana, Albania p. 92.

<sup>112</sup> [http://ec.europa.eu/employment\\_social/spsi](http://ec.europa.eu/employment_social/spsi)

childhood (Evans, 1999). It should be considered the extension of the social protection system with benefits for families and children as part of the social insurance system or social assistance and services (Almenberg, 2007).

### **Conclusion and recommendations**

The European Social Model is a set of principles and values, common to all European regions, including solidarity, social justice, social cohesion, equal access to employment, equal access to health and social protection.

There are four types of models: *Nordic model*, *Liberal model* (Anglo-Saxon), *Continental European model* and *Mediterranean Model*

Albania is facing significant challenges in social protection, the fight against poverty, inequality and the need to modernize the health and social protection based on European standards.

The social protection system in Albania is designed to provide protection against known social risks, based mainly on the contributions made by employers and employees.

In addition to pensions, social security system provides benefits in the event of illness or temporary incapacity to work, and maternity benefits.

The current pension schemes in Albania suffer from a deep deficit, provide low benefits and cover few number of working population.

The European Social Model should consist of a set of basic elements that provide a comprehensive, inclusive participatory social policy development.

Albania's government should enforce the legal framework in order to improve the social cohesion. This would make possible the improvement of pension reforms and our country will reach the standards of an ESM.

Albania needs to strengthen its policies in the framework of education of children and youth, as well as to take measures for gender equality. Only thus, it will be able to achieve a social model at European level.

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