

3. SOCIETY

A demographic time bomb?

TRENDS

The National Institute of Statistics started to release the final results of the 2002 population census. According to these data, Romania has lost over 1 million inhabitants, or 4.2% of the population, since the previous census, in 1992. Moreover, extrapolating these trends, the Institute forecasts that by 2020 the Romanian population will decrease by a further 1.8 million. The data has unleashed a wave of public *angst* and self-doubt over the fate of the country. The question this paper poses is how worrisome the data really are, and what if anything could be done about them. Demographic trends are hardly susceptible to government intervention, as they reflect deep social and cultural transformations. We believe therefore that it is advisable to shift government policy so as to take into account these trends, especially by introducing incentives in the social insurance system to encourage people to contribute for longer and to rely less on public social security mechanisms. The forthcoming EU integration will make the challenges more acute, as it will open the perspective of increased mobility of younger and better educated people, and will force us to eventually address the underdevelopment of rural areas.

CONCERNS

Beyond the uncomfortable feeling of being a sort of endangered species, the Romanian public's concern over the decline of the population is related mainly to the ageing of population, and to its consequences over the sustainability of the social insurance system (the pension system first of all). In addition, many analysts perceive the high, and growing share of rural population as a drain on the economic development and a vulnerable spot in the EU enlargement process. Not least, the life expectancy, and mortality statistics show Romanians trailing behind our CEE neighbors, let alone the EU partners.

Population decline

The drastic population decline has two sources. On one hand, there is the migration out-flow. It peaked early in the last decade, after the 1989 regime change, and has stabilized at a low level lately. The largest population fall however comes from the negative natural

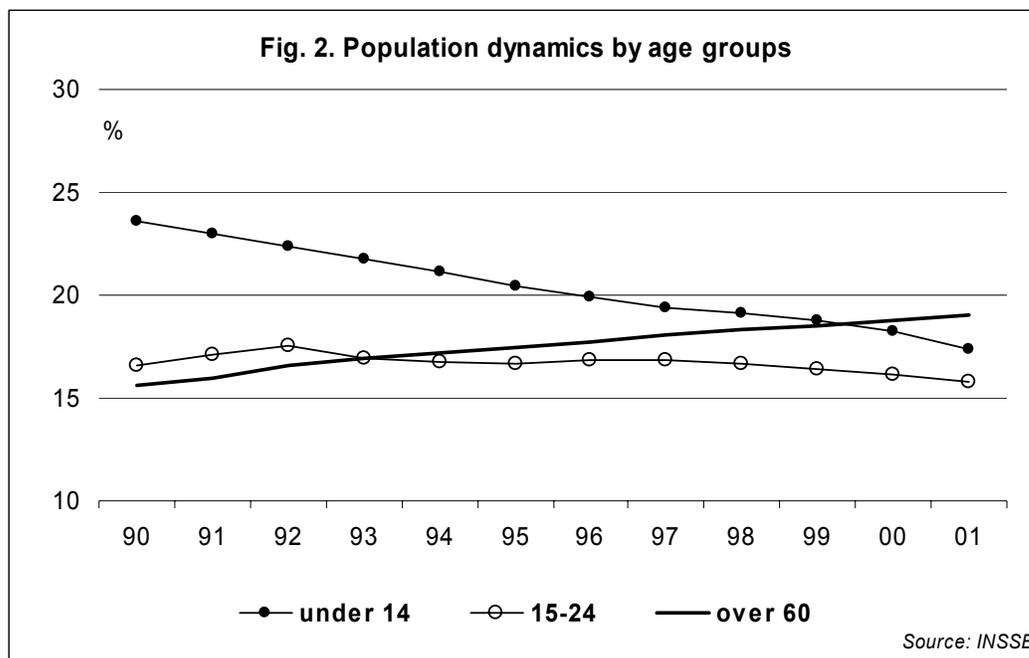
growth. The birth and fertility rates have dived after 1989. In contrast, (male) mortality rate has surged, possibly in connection with the stress of transition. Life expectancy at birth declined over the 1990s, but the bottom has been reached in 1996, and it has bounced back a little since. The differential between gender life expectancies remained wide, suggesting that men have been more affected than women.

Some key indicators are presented in Fig. 1. Romanian population is now back at the 1980 level. The population has peaked in 1990, and has started to drop due to the strong emigration. The natural growth has stayed positive till 1991, but has turned negative afterwards. As the flow of emigration has stalled in the second half of the 1990s, negative natural growth has replaced it as the main cause of the population drop. Natural growth has also two components – birth rate, and mortality rate. The birth rate has steadily decreased since 1989. The death rate has increased after 1989 (mostly due to a substantial drop in male life expectancy), but reached the bottom in 1995 and bounced back afterwards.

Fig. 1. Population dynamics

	1981	1985	1989	1990	1991	1992	1994	1996	1998	2000	2001
Total population (Mil)	22.35	22.72	23.51	23.20	23.18	22.79	22.73	22.61	22.50	22.43	22.39
Birth rate (per '000)	17.0	15.9	15.8	13.6	11.9	11.5	10.9	10.2	10.5	10.5	9.8
Mortality rate (per '000)	10.0	10.9	10.6	10.7	10.9	11.7	11.7	12.7	12.0	11.4	11.6
Life expectancy at birth – average	69.60	69.70	69.76	69.78	69.52	69.48	69.05	69.24	69.4	70.6	71.3
Male	66.83	66.81	66.59	66.56	66.06	65.88	65.30	65.46	65.5	67	67.7
Female	72.40	72.65	73.05	73.17	73.17	73.32	73.09	73.32	73.3	74.2	74.8

Source: INSSE



Ageing

Data also support the claim that Romanian population is ageing. The share of population over 60 years old has surpassed the proportion of those below 15 in 2000 – the latter have dropped in a decade from almost a quarter of the population, to less than 18% (Fig. 2). The smaller cohorts born after 1989 enter fertility age. Coupled with continue low birth rate, and improving life expectancy, this might result in the ageing of the population gathering speed.

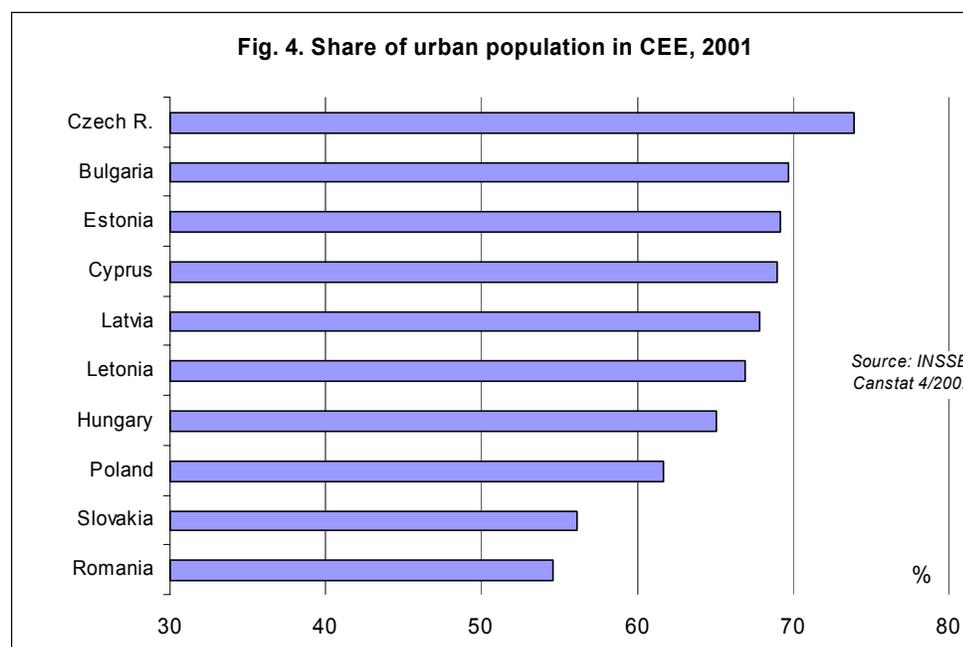
Rural population

The share of the population leaving in the rural areas has marked a surprising increase (Fig. 3). Romania has the largest share of rural population among CEE countries, way over the EU average of less than 20%. Fig. 4 presents these comparative data for 2001 – Romania has the lowest urban population, thus corresponding to the highest urban one. These comparative statistic have however to be read with a grain of salt, because the definition of urban and rural municipalities varies from a country to another. In Romania, there is tendency to promote the 'town' status small, former rural municipalities, those artificially enhancing the urban share of the population.

Fig. 3. Urban/rural dynamic between censuses

	2002		1992		1992-2002, % change
		%		%	
TOTAL	21,698,181	100.0	22,810,035	100.0	95.8
URBAN	11,436,736	52.7	12,391,819	54.3	92.3
RURAL	10,261,445	47.3	10,418,216	45.7	98.5

Source: INSSE



A few months after the population census, the Romanian Institute of Statistics has also conducted an agricultural census, which will be used in determining the CAP (Common Agricultural Policy) support to Romania after accession to EU. The agricultural census, using a different methodology, found that only 28.3% of the active population is actually employed in agriculture. Still daunting, the later is a much smaller figure. The Prime Minister was unhappy with the conduct of the agricultural census, and publicly rebuked the president of the National Statistic Institute, who consequently resigned. The controversy over this sharp revision of official statistics is thus likely to continue.

Habitation

There are also pieces of good news in the data. This is the case with the habitation situation, where the reduction in population, coupled with increased built area has resulted in a marked upswing in the leaving area per person (see Fig. 5). Moreover, the increased number of households, and the lower number of people leaving in a household suggests younger people have been able to leave parental homes earlier than previous generations.

Fig. 5. Improving habitation conditions

	2002	1992	2002 in % against 1992
Number of households	7,392,131	7,288,676	101.4
Mean number of persons per household	2.89	3.07	94.1
Number of buildings	4,846,572	4,491,565	107.9
Number of dwellings	8,110,407	7,659,003	105.9
Number of habitation rooms	20,702,994	18,847,496	109.8
Surface of habitation area – '000, sqm	304,253	258,518	117.7
Mean habitation area per dwelling – sqm	37.5	33.8	110.9
Habitation area per person – sqm	14.2	11.5	123.5

Source: INSSSE

Fig. 6. Breakdown by population age groups in EU candidate countries

% of population age groups out of total, 2001	Bg	Cy	Cz	Est	Hu	Lv	Lit	Pol	Ro	Slov	Sk
Total	100	100	100	100	100	100	100	100	100	100	100
-14	14.6	21.5	15.9	17.2	16.3	16.6	19.0	18.2	17.4	15.4	18.6
15-24	13.9	15.5	14.6	14.9	14.1	14.8	14.6	16.9	15.8	14.2	16.8
25- 59	49.0	46.9	50.9	46.3	49.0	46.7	46.9	48.1	47.8	50.7	48.9
60+	22.5	16.1	18.6	21.6	20.6	21.9	19.5	16.8	19.0	19.7	15.7

Source: INSSSE

Data Assessment

The demographic trends are worrying, but they have to be put into perspective. If we compare other CEE countries, Romanian population is neither older, nor registering a larger decline. Neither is our demographic dependency rate worse than that of our neighbors. For exemplification see Fig. 6 below. Both in what concerns the share of the younger than 14, and of the over 60 year old Romania is not an outlier.

The population decline *per se* is not necessarily a disaster. The view of a growing population as a source of national strength is rather unfashionable today. Its connection to national prosperity (in per capita terms) is not straightforward. What is really troubling in Romania is the very high dependency rate measured as the number of beneficiaries of social security per number of contributors. From the over 10 million active population, only 4 million Romanians are legally employed, and therefore pay for social insurance. Fig. 7 shows the evolution of this crucial indicator after 1990. Starting with a healthy situation where employees outnumbered the pensioners more than three times, by 2000 the two groups were even, and the downward trend continued ever since. Two factors were in play here. On one hand, the number of employees declined, as the unemployment surged, and especially as many people took refuge in the black economy, or used part time contracts (*convenții civile*) to bypass paying full social contributions. Equally important however was the huge rise in early retirement (many times an alternative to unemployment), and retirement for medical reasons (many times fraudulent). This situation has little to do with demographic dynamics, and more with the general economic climate, incentive structure, and law enforcement.

The population decline *per se* is not necessarily a disaster

The population decline is based mainly on the lower fertility rate. This is the trend however least likely to alter, as it reflects deeper social changes. Many analysts have connected the decline in fertility with the economic and social trials of transition. An improvement in the economic outlook will probably increase the willingness of people to raise children. But similar decreases in the fertility rate have been registered in CEE countries which have recovered better from transition, and also in the affluent Western European societies. Figure 8 shows that, among CEE countries, Romania actually has the highest birth rate.

The statistical data also show that people postpone (the first) marriage, and have children later. 2000, with 135,800 marriages, had the lowest crude marriage rate (6.1 per '000) of the postwar period. Life style factors are probably an equally important factor in these choices as is the economic situation. Evidence for this is the finding that only 5% of children are born by women who graduated higher or secondary education. Taking into account that Romanians record the widely met correlation between education attainment and income, this data suggests there is a negative correlation between income and the number of children.

After 2005, the active population (both economically and from the fertility point of view) will start to include the lower cohorts of post-1989. Combined with the low fertility, this lower intake will result in both fewer births, and a higher demographic dependency rate (i.e. dependents per active population). Where an improved economy will clearly be beneficial, is in its impact on life expectancy. Romania trails badly in this respect, both compared to EU countries, and even to its CEE neighbors (see Fig. 9). The 1990s have been extremely tough on Romanian males, who registered a decline in life expectancy. The trend is now positive. A stable and improving economic situation will allow life expectancy (both due to psychological factors, and to increased spending on healthcare) to start gaining ground. Welcome as this development will be, it will contribute to the ageing of the population, thus worsening further the demographic dependency rate.

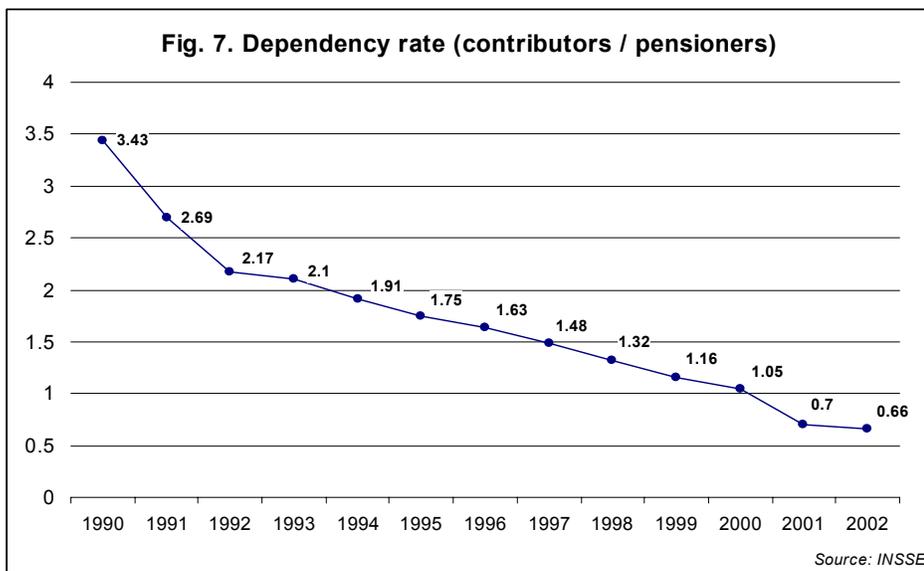


Fig. 8. Live births and natural increase across CEE – 2001 data

	Bg	Cy	Cz	Est	Hu	Lv	Lit	Pol	Ro	Slov	Sk
Live births on 1000 habitants	8.5	11.6	8.9	9.3	9.5	8.3	9.1	9.5	9.8	8.8	9.5
Natural increase on 1000 habitants	-5.8	4.8	-1.7	-4.3	-3.4	-5.7	-2.5	0.1	-1.8	-0.5	-0.2

Source: INSSE

Fig. 9. Life expectancy across CEE – 2001 data

	Bg	Cy	Cz	Est	Hu	Lv	Lit	Pol	Ro	Slov	Sk
Life expectancy (on birth – years)											
M	68.6	76.1	72.14	64.73	68.15	65.2	65.9	70.2	67.69	72.1	69.54
F	75.3	81.0	78.45	76.22	76.46	76.6	77.4	78.4	74.84	79.6	77.60
Life expectancy (at the age of 65 - years)											
M	13.0	16.5	14.00	12.6	13.04	12.5	13.3	13.9	13.38	14.2	13.53
F	15.6	19.1	17.13	17.2	16.74	17.8	17.7	17.7	16.00	18.2	17.14

Source: INSSE

WHAT CAN WE DO ABOUT IT***Improve the dependency rate***

Worrying as the deteriorating demographic dependency rate might be over the longer term, the current problems of the social security system – primarily pensions – come from the low number of contributors. The official retiring age is supposed to raise over the next 13 to 15 years from 62 for men, and 57 for women, to 65 for all. We have however to bear in mind that Romanian pensioners are relatively young, many of them retiring before the official age, either on medical grounds, or under different early retirement schemes. These practices have to be curbed, and the alleged corruption associated with many medical retirement / disability benefits decisions stamped out for the effects of the law to really bear fruits.

The real problem (high dependency ratio) is due to poor government policies, not demographic trends

The key element, however, is the incentives people face. Good government policies should to determine them to work (and contribute) longer, cater more for their own needs, and rely less on public schemes vulnerable to free riding and political risk. Generally, this can be achieved by linking closer the level of benefits to the contributions paid in the system. In the case of pensions, a system based on capitalization would provide the right incentives. The government is unfortunately moving slowly to enact a questionable volunteer supplementary occupational private pension, risky because of its dependence on the fate of the employer company, and under undue trade union influence. The more sustainable World Bank supported compulsory funded scheme looks to have been abandoned. Similarly, in the case of healthcare, supplementary private insurance, or even (tax free) health saving accounts might do the trick. Providing tax incentives for pensioners who continue to work post retirement (e.g. part time) might also encourage some of the 'young' Romanian retirees to return to employment.

Improve the fertility rate

As mentioned earlier in the article, we remain skeptical that the choice of families to have children could easily be influenced by public policy – at least in a democracy. An improved economic climate will go some way towards achieving this objective. The government intends to gradually increase the amount of child benefit, to up to 10% of the net average wage. This is welcome from the perspective of fighting poverty. In Romania, the number of children is the best predictor of a family leaving in poverty. An increase in the value of the child benefit will go a long way towards improving the fate of children from poor families. Encouraging poor people to have more children is however a questionable policy. Educational attainment of children is correlated with that of parents. The proper policy objective is to determine better educated, better earning people to establish a family. As we have discussed above, it is exactly this type of people who postpone having children. It is unlikely that the flat rate child benefit would have any impact on the decisions made by this category. Conversely, higher earning mothers will be negatively affected by the introduction next year of the (low) flat rate maternal benefit. Moreover, the reforms of

the education system have gradually eliminated in the last years the extra-curricular services provided in the few number of schools where they had survived the early years of transition (such as catered meals or partial after-class boarding). It is precisely such services which were extremely helpful for working mothers, who many times lack time more than they lack money to contribute to their financing. *On balance, the government policy does not seem sensible or very coherent, as it overall discourages higher earning women from becoming mothers, strengthening an already manifest natural (negative) trend.*

Another questionable government policy is the planned introduction of supplementary benefits for single mothers. It is obvious that women who raise their children alone are in a more vulnerable situation, both in terms of their own welfare, and that of the children. There are however serious reasons to question this approach. On one hand, the demographic statistics have shown that, as people postpone or refrain from marriage, up to a third of couples will not choose to legalize their relationship. Therefore, using as proxy the status of a woman might fail to identify the actual single mothers. On the other hand, tying a benefit to the unmarried status of the woman might have the self-defeating consequence of encouraging the recipients to refrain from marrying, and thus preserving their vulnerability.

Emigration

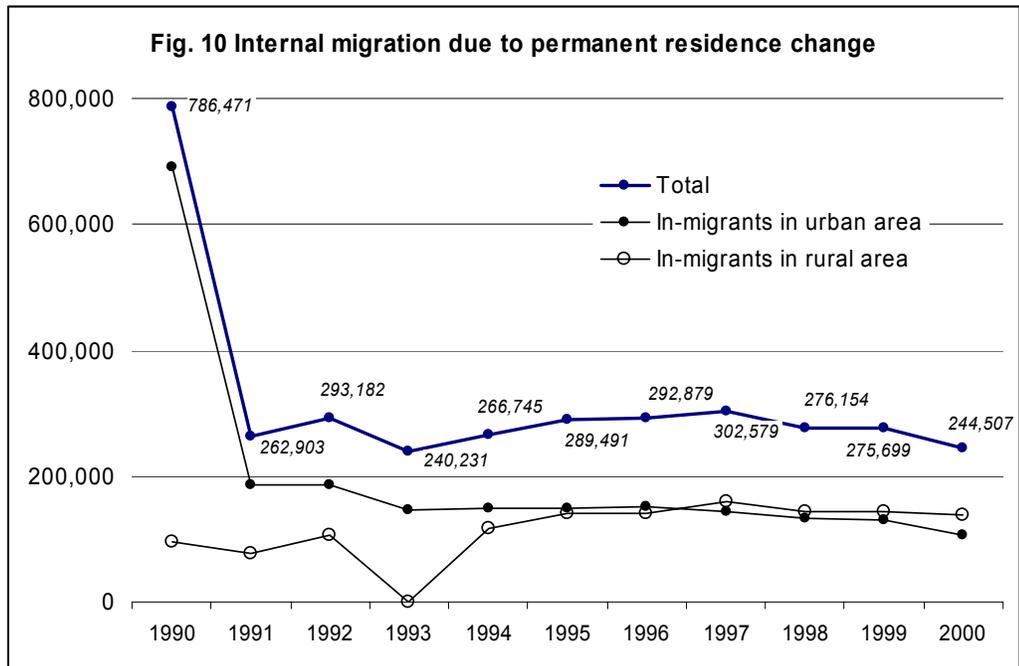
Statistics show that the emigration flow has thinned lately. The lifting of visa requirements for EU did not result in a huge flux, and most of those who leave engage in circulatory, seasonal migration. These are however the legal emigrants. Illegal migration can not be measured exactly, but it is estimated to be large.

This apparent calm might be challenged by the accession to the European Union. It will, especially after the full liberalization of the free movement of laborers, drastically improve the mobility of Romanian workers. Those most likely to benefit will again be the younger, and better educated, who possess the necessary language skills. Their emigration will pose many problems for the Romanian society. In spite of the public discourse on the need to create a better environment for the (re)integration of the most intellectually gifted Romanian youths, many of whom return home from scholarships abroad to face an unknown future, little has been achieved so far. The integration in EU will raise the challenge for the Romanian society to find the incentives to keep home its more gifted and mobile members.

People need to face the right incentives – to stay in (or return to) Romania, and work longer

Cope with an over bloated rural sector

The gravest challenge for the European integration of Romania is however the huge proportion of the rural population. The reversed migration from town to village has been a strategy to cope with the dislocations produced by the transition, by taking refuge in the cheaper (and only partly money based), slow path rural economy, dominated by 'survival agriculture'. It is extremely worrying that this phenomenon has gathered pace after 1997, when for the first time the overall trend of internal migration was away from cities, and into rural areas (see Fig. 10).



Poverty is endemic in the rural areas. The Romanian village trails the town on practically any human development indicator. The improvement of the economic environment will also help to reverse the flow of internal migration, back from village to town. The share of the rural population will however remain considerable for many years to come. Rural development is going to be a challenge for the Romanian government. The pressure will grow once the country is integrated in the European Union. The rather backward Romanian agriculture will have difficulties when fully exposed to the European competition. On the other hand, the very large number of Romanian farmers will represent a growing burden on the intervention mechanisms of the Common Agricultural Policy, which seem to move away from subsidizing agricultural output, and towards income support for individual farmers.

Conclusions and Recommendations

- *The results of the census have been a shock to the public opinion. The drop in the number of population was larger than expected. Behind the light catching numbers, there are more real and serious challenges. An improved economy will positively affect all of them, but special policy interventions will be needed also. Demographic trends have deep seated causes, and they are not very susceptible to the intervention tools open to a democratic government, which will have only a marginal success at best.*
- *The drop in population numbers is not an evil in itself, and theoretically could even have beneficial consequences. Romanian population is still relatively young when compared with both EU countries, and our CEE neighbors. The severe Romanian problem of the economic dependency ratio has been induced more by policy, than by demographics. The government should encourage*

people to retire later, and to rely more on their savings (under different forms) to cater for their needs. Unfortunately the creation of the private pension system is not on government agenda. Its preferred option of occupational pensions presents considerable risks, and since it is strictly volunteer will have a much reduced appeal. In the health field, supplementary health insurance (which is under consideration), and health saving accounts could offer a way forward

- The decline in the fertility rates is a general European phenomenon, and is likely to stay with us. The government is devising a number of policy initiatives (increased child benefits, and special benefits for single mothers) which are supposed to alleviate the problem. These policies are however better suited for poverty alleviation (and even that is questionable for the second one). The real problem is that more affluent people refrain from having children, and for them the government policy is more a deterrent (i.e. the introduction of the flat rate maternal benefit, instead of the earnings related one).
- Emigration appears to be kept in check. The forthcoming accession to EU will however open the opportunity to emigrate to many of the younger and better educated people the country can ill-afford to lose. The government needs to devise a policy devised to this more mobile minority.
- The continuous ruralization of Romania is the consequence of a deeply non-functional economy / society. The EU integration will force us to face this challenge sooner rather than later. While an improving economic climate may stop and the trend may even reverse, the problem posed by the huge underdeveloped rural population will be with us for many years to come. The development of rural Romania is one of the most serious challenges for any Romanian government, and despite funds to address it flowing from various organizations, no comprehensive strategy was yet produced. The government should create a pool of interested parties, business organizations and think-tanks to work jointly on producing such a strategy, submit it to the public debate and use it as the main basis on negotiating Agriculture and Regional Development with the European Union.