SOCIAL

4.1. THE CHALLENGE OF SOCIAL COHESION

Achieving a social agreement

On February 19, 2001, the main Confederations of Trade Unions signed a Social Agreement with both the Government, as well as with employers' organizations. The agreement was for the Trade Unions to refrain from strikes, protests, riots and public demonstrations, during a one-year period, in exchange for the Government meeting, before August 31st, 2001, some of the unions' economic and social demands (e.g. increasing the minimum salary, modifying the pensions legislation, a new union law, new work-code and consultation of trade unions in drafting the 2002 state budget). For different reasons, both the Government and the Trade Unions had an interest in concluding this agreement. From the Government's perspective, social peace was important in its first year in office, specially since Romania had to negotiate a new stand-by agreement with the IMF. Regarding Union leaders, they were certain that at least part of the stipulations of the social agreement would be complied with by the Government (e.g. indexation of pensions according to inflation).

However, the social agreement was never "completed". It provided that the tripartite commissions at the Ministry level would sign similar social agreements for each of the socio-economic sectors, which, if carried out, would have increased the chances for one-year social peace, by identifying specific solutions for individual economic branches. Moreover, the Government failed to comply with certain stipulations of the agreement, which the Unions considered as essential, such as modifying the pensions law, reducing taxes on salaries and increasing the minimum salary[118]. Thus, subsequent efforts of the Government (negotiations with unions, short-term closing of the conflict at Resita, successful privatization of Sidex with effective negotiation with the Unions) did not succeed in preventing social unrest, but only to delay it until the last quarter of the year.

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[118] Interview by the author with Petru Dandea, the vice-president of CNS Cartel Alfa.

The situation was not unexpected. In April 2001, soon after the social agreement was signed, the Trade Unions revealed their dissatisfaction with how the Government applied the agreement. By August 31st (which, as mentioned above, was the deadline for the Government to keep its promises), two national Confederations – CNS Cartel Alfa and BNS – had publicly stated their intention to pull out from the Social Agreement. However, the fragmentation of Trade Unions, the competition amongst their leaders, their poor coordination, and the complicated bureaucratic steps to organize a legal strike, pushed the protests to the late fall. Thus, the Government managed to gain time, and to avoid strikes in spring (as shown in Fig. 1, spring is traditionally a busy season for social protests).

Fig. 1. Dynamics of formal social conflict 1990-1999. Collective labor disputes

	1992	1993	1994	1995	1996	1997	1998	1999
Total	195	324	384	319	285	260	352	653
January	6	12	47	15	21	10	30	23
February	25	26	105	20	26	17	54	138
March	31	24	28	44	53	20	31	50
April	25	94	21	31	17	26	15	153
May	22	31	18	54	30	23	26	83
June	34	37	37	53	42	27	27	42
July	12	38	31	17	31	17	23	36
August	6	12	26	20	22	17	24	37
September	9	8	24	16	18	21	21	31
October	4	8	14	13	12	31	57	17
November	11	18	23	24	4	39	23	29
December	10	16	10	12	9	12	21	14

After the passage of the deadline set in the Social Agreement (August 31, 2001), virtually all Union Federations from the state-owned companies announced strikes and public demonstrations. Their threats, however, materialized only in late November, after the formal cancellation of the social agreement by Cartel Alfa and BNS. Protestors' claims were basically the same, namely reduction of salary taxes, increase of the minimum salary to 100 euro, amendment of the Pensions Law 19/2000 (in the sense of allowing the present employees to retire under the old provisions – higher pensions, earlier retirement), and non-discriminatory granting of food stamps.

Both Cartel Alfa and BNS recently stated their pessimism regarding the possibility of concluding another Social Agreement in 2002, and their arguments were threefold:

- The previous Social Agreement had been a clear failure.
- The Government did not prove its capacity and willingness to solve Unions' demands, such as salary increase in the education and health sectors, reduction of salary taxes, amending the Pensions Law.
- A new Social Agreement would be useless and purely formal, like the previous one.

But did the Government break its commitments to such an extent, to deserve the above remarks? BNS's own internal evaluation regarding the observance of the Social Agreement reveals that, out of the 84 general and specific stipulations of the 2001 Social Agreement, which BNS monitored, 54 of these (that is to say 64%) had been, by October 2001, fully or partially complied with by the Government. Most of the issues were solved in consultation with unions at the ministries' level (e.g. increasing with 400,000 the number of employees who receive food stamps, partial modification of the Pensions Law, indexation of pensions according to inflation, differentiated increase of the salaries depending on the previous increase that took place at the end of 2000, new work-code)[119].

The above facts suggest that considerations of public image play a considerable part in the unions' strategy towards the Government. In order to gain legitimacy and public support, the unions tend to invest more in advertising negotiations – or, as a matter of fact, the failure of negotiations, than in actually negotiating[120].

Forecast of social conflicts in 2002

The Government needs social peace in 2002 even more than in 2001, due to a number of circumstances, such as:

- Romania's bid to join NATO at the Prague Summit;
- The stated intention to open all the negotiation chapters with the European Union;
- Important on-going economic programmes, such as the privatization of the Romanian Commercial Bank and of Alro Slatina, the PSAL II agreement with the World Bank, the second installment under the stand-by agreement with the IMF.

However, the behavior of Romanian Trade Union Confederations is often unpredictable. Their international affiliation is not based on ideology (which would have made them more predictable), but on a "first come, first served" basis, since international union organizations accepted not more than two members from each country. Thus, CNSLR Fratia and BNS are affiliated with the International Confederation of Free Trade Unions (ICFTU – social-democratic), whilst Cartel Alfa and CSDR are members of the World Confederation of Labor (WCL – Christian-democratic). In reality, however, the position and actions of CSDR and BNS are rather contradictory to the ideological orientation to which they are formally affiliated. Whilst BNS, supposedly leftist, is rather hostile to the Government (it organized major demonstrations in November 2001, and recently announced categorically that it would not sign a new Social Agreement), CSDR, supposedly center-right - oriented, adopted a pro-governmental stance (it did not break the Social

[119] www.bns.ro (latest update: 22.01.2002).

[120] Opinion expressed by union leaders at the SAR focus group. Similar position concerning public image considerations can be found at: www.cartel-alfa.ro (last accessed: 22.01.2002).

Agreement, and is favorable to the conclusion of a new one). Group interests, short-term strategies and leaders' personalities seem to matter considerably more than ideological affiliation or doctrine, for these Union Confederations.

Romanian trade unionism was confronted with a dramatic decline of its social basis, in the context of the economic transformation. This trend continued during 2001, and it is likely to also continue in 2002. The membership of the main five national Confederations has declined by two thirds, over the past five years (see Fig. 2). Additionally, the Trade Union movement became increasingly fragmented, and the migration of some Federations from one Confederation to another increased the competition for members amongst Confederations. Equally, the decentralization of the Union movement further eroded the position of national Confederations. The latter are currently trying to counter such developments, by pushing the Government to change the Union Law[121] (the new draft is currently under discussion in Parliamentary commissions), with a view to centralizing the Union movement and increasing the role of central-level Confederation leaders.

Fig. 2. Unionization rate and union membership by national confederation

Confederation	Members at the beginning of the 90's	Members in 1996-1997	Members in 2001 [122]
CNSLR Fratia	N/A	2,000,000	About 650,000
CNS Cartel Alfa	N/A	1,200,000	About 250,000
BNS	N/A	700,000	About 250,000
CSDR	N/A	600,000	About 200,000
Trade Union Confederation Meridian	N/A	600,000	Less than 100,000
TOTAL/unionization rate	N/A / About 90%123	5,100,000 / 70%124	1,450,000 / 30%

A map of future conflicts is based on two potential sources for social unrest.

One such source relates to companies to be restructured or privatized, therefore subject to a policy change towards labor force. Such companies should be carefully monitored, in order to avoid cases similar to Resita. In February, 2002, the Government will sign a new agreement with the World Bank, on the second stage of the Private Sector Adjustment Loan (PSAL II). The program includes 20 state owned companies that are to be privatized (10 of them with direct assets selling, 10 others will be first restructured, and subsequently privatized). Around 80% of these companies belong to two particularly problematic economic sectors, namely heavy industry (metallurgy included) and agricultural engineering. The most difficult cases are represented by metallurgical companies (Siderurgica Hunedoara, COS Targoviste, Industria Sarmei Campia Turzii, Otelul Rosu, Siderca Calarasi, COS Resita, Metalurgica Aiud), and agricultural machines and car

[121] For a clearer image of the organizational structure of Romanian unions see Annex 1.
[122] Estimate of the author based on information from central level trade union leaders.
[123] Estimate by central level trade union leaders.
[124] Estimate by central level trade union leaders.

manufacturers (Tractorul Brasov, Premagro Oradea, Hart Miercurea Ciuc, Aro Campulung, Rocar Bucharest). In this context, massive layoffs or unsuccessful privatizations (that is to say, which end with bankruptcy) can easily lead to social conflicts, strikes and public demonstrations.

The second source of potential conflict is at the county level. Counties with a large number of state owned companies and recently privatized state owned companies present a high risk of social conflict, because of the already high unemployment rate, and low salaries. In 2002, these counties will, by and large, be the same than in 2001, namely Hunedoara county, Jiu Valley, Brasov and Galati areas. Special care and individually crafted policies are needed for these areas.

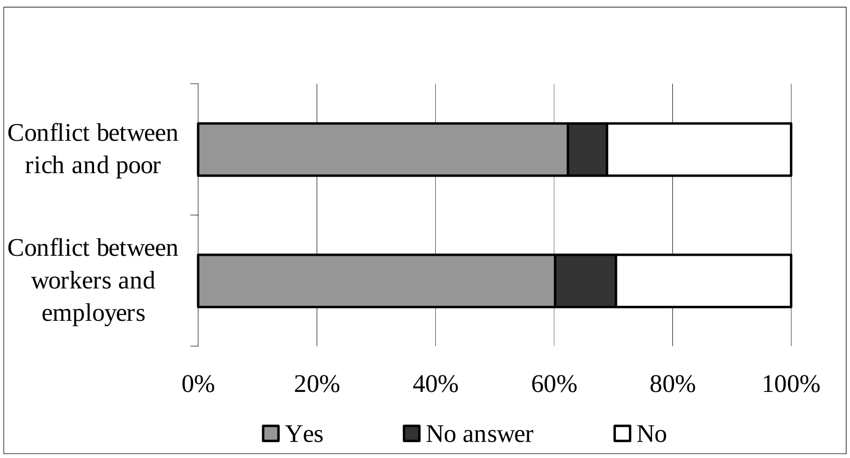
Recommendations

- ***Upgrade the CES***. The Government should make fuller use of the existing Social and Economic Council (CES). It currently only has an advisory role, and has no power whatsoever to influence the legislation in the socio-economic field.
- ***Focus more on regional and sectoral Social Agreements***. Since there are little chances to conclude a National Social Agreement this year, and since social tensions are concentrated in certain regions and industrial branches, social dialogue will only improve if punctual agreements are reached with each and every branch Union, although the media effect would be less spectacular.
- ***Focus resources on problematic sectors, such as education***. Even if CSDR will sign the 2002 Social Agreement, there is a high potential of social conflicts in sectors represented by this National Confederation, particularly in the education sector. The Government has only partially met the demands of the Unions last year. The education sector Unions are better organized than others, and, therefore, conflicts and public demonstrations are to be expected, unless the Government takes action concerning this sector. Equally, since the funding of education depends on the state budget, the potential for conflicts will increase in mid 2002, when the state budget will be amended.
- ***Bring the real employers in***. It is necessary that the social dialogue be more clearly regulated, in order to ensure proper participation of employers' organizations. The latter, so far, have been less present in the social dialogue. A possible explanation for this situation, is the fact that the majority of Union members come from state-owned companies, in which case the state is both mediator and owner. However, this situation will change in the near future, and, therefore, it becomes increasingly important to actively involve employers in the social dialogue, and to avoid that social dialogue becomes just a bilateral negotiation between the Government and the Trade Unions.

The roots of social conflict

Unions draw on members, and the decreasing number of Union members should mean a proportional decrease in social conflicts. However, this logical trend is not fully confirmed by reality. Illegal strikes, of the type encountered at Resita last year, seem to become the norm rather than an exception. In many instances, Union leaders have to follow the members even if they disagree with the decision to strike, just out of fear not to lose their legitimacy. In order to understand the more profound causes of social conflicts, SAR surveyed in EWR 4/2001 the urban Romania[125].

Fig. 3. Subjective social conflict



At first sight, Romanian workers do not seem prone to social protest at all, not to speak of violent riots. Only 5% declare that they would join a protest, and only 1.8% would consider protesting in front of the town hall or Government. There is, however, a considerable gap between the self-assessed readiness to protest, and the potential for protest (the latter being illustrated by 'subjective social conflict', i.e. the subjective perception that there is social conflict). The danger, suggested by the figures below, is that informal protest (which even escapes statistic evaluation, since only legal strikes are monitored by the Statistics Commission) may gradually replace more legal and structured protest forms, which are usually Union-led. All socially dangerous protest movements of the last decade, such as the miners' rebellions in 1991 and 1999, the violent protest in restructuring companies in Brasov and Valea Calugareasca in 1997, and the contestation of the privatization at Resita, were not formalized, and in many instances Courts ruled them illegal before the outbreak of violence. Therefore, counts of formal strikes, such as those

[125] The survey is representative for urban Romania. The sampling and measuring were done by the Center for Urban and Regional Sociology (CURS). The sample is representative for all Romanians of 18 years and older residing in 'towns'.

captured in Fig. 1 of this chapter, must be completed with analysis of the informal protest and of conflict proneness (see Fig. 3 and 4).

In order to identify the profile of those who are more inclined to perceive a social conflict, we built explanatory models by multiple regressions for every subjective conflict variable.

Fig. 4. Explanatory models of subjective social conflict

Independent variables	Conflict between employers and employees	Conflict between rich and poor	Social conflict index[126]
State dependency[127]	N/S	N/S	N/S
Equality	N/S	+ **	+ **
Reads newspapers	- **	N/S	N/S
Watches public TV	N/S	N/S	N/S
Watches private TV	N/S	N/S	N/S
Relies on friends for information	N/S	N/S	N/S
State employee	N/S	N/S	N/S
Private sector employee	N/S	N/S	N/S
Privatizing sector employee	N/S	N/S	N/S
State reliance[128]	+ *	N/S	N/S
Conflict between Romanians and Rroma	+ ***	+ ***	+ ***
Town size over 100,000 residents	+ **	N/S	N/S
Education	N/S	N/S	N/S
Age	N/S	+ bivariate models only	N/S
Wealth	N/S	N/S	N/S

*Legend: + signifies a positive correlation, - a negative correlation; * predictor significant at p<0.1;**p<0.05;***p<0.001(***=strongest association); N/S means that the variable did not turn out a predictor*

We constructed an index of social conflict, based on the two social conflict variables, and will continue to monitor this index in 2002 (for more statistical data, see Annex 5).

The models of social conflict suggest a pattern of conflict, which is confined to large cities, rather than to medium sized and small towns. The propensity for perceiving an ethnic conflict (the conflict with the Rroma) turns out to be a predictor for social conflict. Subjective social conflict is more prevalent amongst older[129] people, and amongst those with more collectivistic values.

126 Three steps cumulative scale, with people agreeing to both conflict between rich and poor and conflict between employers and employees at the top of the scale, people agreeing to just one assertion at the middle, and people rejecting both assertions at the bottom of the scale.
127 Variable taking into account the respondent's household employment composition as follows: 1) either all active members are working in the state sector, 2) at least one person is employed in the private sector, 3) all members of the household are retired or not employed.
128 Agreement with the statement "The state should provide enough jobs and fair payment to everybody" as opposed to "Each person is responsible for his or her own well-being".
129 The positive association between age and conflict is significant only in bivariate models.

Both social and ethnic resentment are characteristics of this group. The analysis of conflict between private employers and employees also reveals that the least informed people tend to overestimate conflict. People who read newspapers for receiving economic and social information are at the bottom of the scale of subjective social conflict, while those who rely more on chat with friends and colleagues than on individual access to media are at the top of this scale. The small groups of chatting colleagues and friends seem to be the nuclei where the feelings of social envy and ethnic resentment are bred.

To understand the structural causes of state-reliance, which is also an important predictor for subjective conflict, we have built a separate model of state-reliance, based on the question asking respondents to choose between self-reliance and state reliance (see Fig. 5 and 6).

Fig. 5. State versus self reliance

When considering job and payment, would you rather agree that...	**%**
Each person is responsible for his or her own well-being (SELF RELIANCE)	36.1
The state should provide enough jobs and fair payment to everybody (STATE RELIANCE)	57.5
Other	2.9
No answer	3.5
Total	100.0

Fig. 6. Explanatory model of state reliance

Independent variables	**Association and Significance**
Equality	+ ***
Blame political class	- *
State employee	+ **
Private sector employee	N/S
Privatizing sector employee	- *
Reads newspapers	N/S
Watches public TV	+ **
Watches private TV	+ **
Relies on friends for information	N/S
Age	N/S
Size town under 100 000 residents	+ **
Size town over 100 000 residents	- **
Education	- *
Wealth	- ***

*Legend: + signifies a positive correlation, - a negative correlation; * predictor significant at p<0.05;**p<0.01;***p<0.001(***=strongest association); N/S means that the variable did not turn out a predictor*

Based on the research carried out, the following features of state reliance versus self-reliance should be noted:

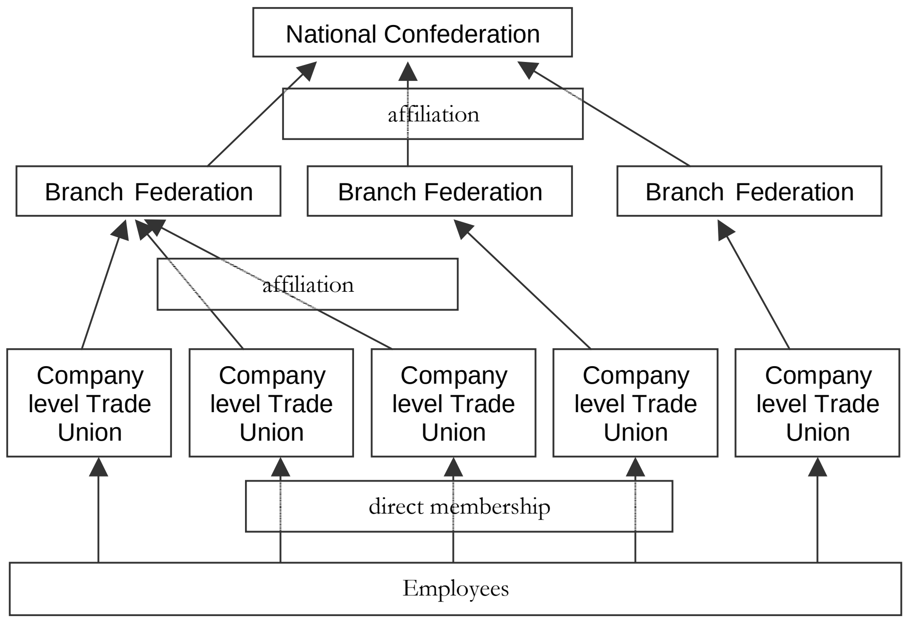
- **The state-reliant are poorer and less educated than the self-reliant.** Unlike in the conflict models, personal wealth turns out a powerful determinant. People who are more educated, and consequently better off, tend to believe that each person is responsible for his or her own welfare. Equally, people who read newspapers, as opposed to those watching television, are more self reliant.

- **Social and economic environment matters**. The self-reliant live in the large cities, the state reliant in smaller towns. The mobility of labor and the opportunities of larger cities make people feel that they can make their own choice; the limited range of choices in small towns makes one more state reliant. In fact, this is indirect evidence that the forced urbanization, promoted by the Communist regime as a long-term policy, only gave birth to unviable towns, to places deprived of opportunities for development.
- **Work environment matters**. People who work in state enterprises are more state reliant than those working in the private sector.

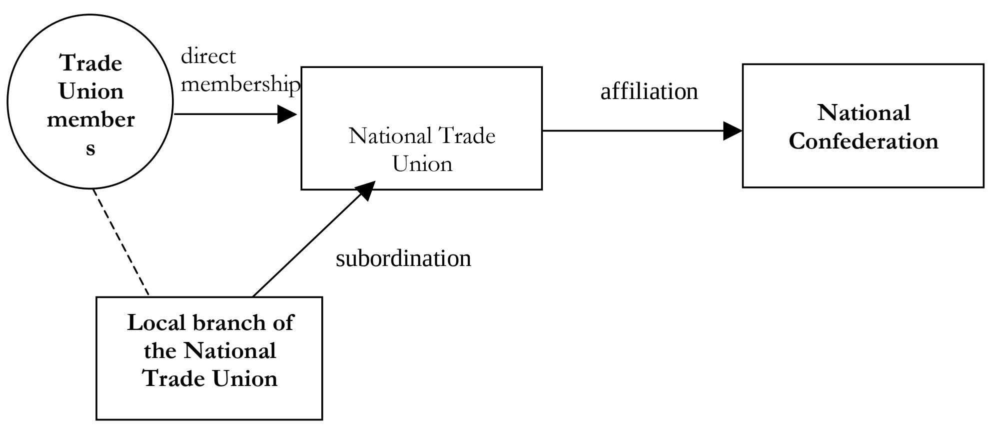
These models indicate that state reliance is reinforced by the delayed economic reform in Romania, and the consequent existence of a large state sector. People have now enough experience to judge that the management in private firms is better, and that privatization is the solution for the economy (see EWR 4/2001). However, as long as the distorted incentives, associated with the delayed economic reform, are not removed, they will hang on the state sector because it is so much simpler to carry on one's habits instead of having to face new challenges. Thus, the state reliance of Romanians is still a dominant feature of social life, but it is state sponsored. Only the Government can change this situation, by encouraging new opportunities, and specially by giving a clear signal that living on state wages in the loss making industry is simply not an option anymore. There is an obvious need for a deliberate policy to encourage self-reliance, whilst creating more opportunities.

However, the prominent feature of the Romanian society, after a decade of transition, is the absence of social cohesion. The hardships of transition increased the social resentment towards the rich, and towards anyone perceived as doing better. The combination of ethnic hostility with social resentment, amongst the urban lower middle-class, is particularly worrisome, as it provides a constituency for radical populism. It is not only the poorest, who are targeted by policies such as the minimum income guarantee, which need special attention, but also individuals doing comparatively better, who nevertheless have a significant proneness to conflict. The Government should finally understand that keeping a large public sector is the worst social cohesion policy, and that there is a need to advance privatization and eradicate the loss-making state sector, whilst building effective social cohesion policies for both the public and the private sector employees.

Annex 4



1.1 Post-communist Romanian trade unions' organization chart (industrial-based organization)



1.2 Romanian Trade Unions' organization chart envisaged by union leaders (profession-based organization)

Annex 5

1. Explanatory models of subjective social conflict

Independent variables	Regression coefficient (Standard error)
State dependency	-0.124 (0.128)
Equality	0.205 (0.170)
Reads newspapers	-0.493 (0.169) **
Watches public TV	0.018 (0.156)
Watches private TV	0.036 (0.143)
Relies on friends for information	0.310 (0.191)
State employee	0.091 (0.151)
Private sector employee	0.215 (0.143)
Privatizing sector employee	0.014 (0.237)
State reliance	0.298 (0.163) *
Conflict between Romanians and Roma	1.324 (0.153) ***
Town size over 100000 residents	0.332 (0.126) **
Education	-0.009 (0.039)
Age	0.001 (0.006)
Wealth	-0.105 (0.084)

2. Explanatory models of subjective social conflict

Independent variables	Conflict between rich and poor Regression coefficient (Standard error)
State dependency	-0.012 (0.125)
Equality	0.417 (0.165) **
Reads newspapers	-0.104 (0.161)
Watches public TV	0.264 (0.151) **
Watches private TV	-0.007 (0.135)
Relies on friends for information	0.281 (0.183)
State employee	0.169 (0.142)
Private sector employee	0.126 (0.138)
Privatizing sector employee	-0.153 (0.222)
State reliance	0.255 (0.158)
Conflict between Romanians and Roma	1.045 (0.147) ***
Town size over 100000 residents	0.104 (0.120)
Education	-0.009 (0.038)
Age	0.007 (0.006), + bivariate models only
Wealth	-0.128 (0.081)

3. Explanatory models of subjective social conflict

Independent variables	Social conflict index Regression coefficient (Standard error)
State dependency	-0.090 (0.092)
Equality	0.172 (0.054) **
Reads newspapers	-0.094 (0.157)
Watches public TV	0.105 (0.150)
Watches private TV	0.045 (0.150)
Relies on friends for information	0.146 (0.159)
State employee	0.115 (0.085)
Private sector employee	0.132 (0.083)
Privatizing sector employee	0.031 (0.122)
State reliance	0.009 (0.092)
Conflict between Romanians and Romany	0.531 (0.052) ***
Town size over 100000 residents	0.021 (0.024)
Education	0.004 (0.013)
Age	0.001 (0.002)
Wealth	-0.048 (0.029)

4. Explanatory model of State reliance

Independent variables	State reliance Regression coefficient (Standard error)
Equality	1.450 (0.151) ***
Blame political class	-0.248 (0.147) *
State employee	0.310 (0.131) **
Private sector employee	-0.104 (0.122)
Privatizing sector employee	-0.364 (0.216) *
Reads newspapers	-0.011 (0.157)
Watches public TV	0.383 (0.142) **
Watches private TV	0.254 (0.130) **
Relies on friends for information	0.052 (0.171)
Age	0.004 (0.005
Size town under 100 000 residents	0.312 (0.119) **
Size town over 100 000 residents	-0.257 (0.135) **
Education	-0.069 (0.037) *
Wealth	-0.330 (0.094) ***

4.2. UNFINISHED BUSINESS: THE ROMANIAN WELFARE REFORM

The Romanian welfare system is in crisis. The value of the benefits has been continuously decreasing in real terms, whilst an improper system of work incentives has led the number of beneficiaries to skyrocket. Hefty surpluses at the start of the last decade have thus turned into deficits, due to the shortsightedness of the successive post-communist governments. Moreover, the demographic trend is working against the welfare system.

The current Government made commendable efforts to redress the situation. The public pensions system has been reformed, and the different income support benefits have been integrated into the newly established minimum income guarantee. However, many of these reforms remain unfinished. The long-awaited funded pension scheme is still on the drawing board, and the flagship minimum income guarantee will prove a formidable challenge to the local governments that have to implement it.

A rising challenge

Poverty has increased in Romania over the transition period, mainly as a consequence of the economic decline. Almost half of the population currently lives below the poverty line (see Fig. 1). International comparisons, employing purchasing power parity equivalents, show that Romania has one of highest poverty rates in the region, only surpassed by Moldova, Albania and Russia (Fig. 2).

Fig. 1. Poverty in Romania, 1995 - 2000

Year	Poverty rate	Extreme poverty rate
1995	25.3	8.0
1996	19.9	5.1
1997	30.8	9.5
1998	33.8	11.7
1999	41.2	16.6
2000	44.0	N.A.

Sources: National Human Development Report (2000), Tesliuc, Pop, Tesliuc, 2001

Fig. 2: Poverty in Central and Eastern Europe, 1995 - 1999

Country	Year	Poverty rate (% of population)	
		2 USD PPP*/day	4 USD PPP/day
Moldova	1999	55.4	84.6
Russia	1998	18.8	50.3
Albania	1996	11.5	58.6
Romania	1998	6.8	44.5
Macedonia	1996	6.7	43.9
Latvia	1998	6.6	34.8
Bulgaria	1995	3.1	18.2
Lithuania	1999	3.1	22.5
Ukraine	1999	3.0	29.4
Slovakia	1997	2.6	8.6
Estonia	1998	2.1	19.3
Hungary	1997	1.3	15.4
Poland	1998	1.2	18.4
Belarus	1999	1.0	10.4
Croatia	1998	0.2	4.0
Czech Republic	1996	0.0	0.8
Slovenia	1997/98	0.0	0.7

Source: World Bank, 2000; Note: The poverty estimates use thresholds in USD/day/adult at 1996 purchasing power parity equivalent.

The increase in poverty has been further aggravated by the decreasing state support for the poor. Fig. 3 shows that the relative value of social benefits has substantially decreased. It is interesting to note, however, that contrary to common wisdom, pensioners have suffered less than other categories (the average value of the public pension, as compared to the average wage, has decreased by a quarter, whilst other benefits have dropped by two thirds).

Fig. 4 offers an insight into the causes of the decline of resources for social protection. The number of those fully employed has almost halved over the transition period, from over eight million, to four and a half million. Full time employees currently represent only one third of the working age population. Equally, the decline of resources available for social protection has been accompanied by an increase in the demand for social benefits.

The demographic trend also works against the welfare system (Fig. 5). Romania's population is ageing, and the country has a negative overall population growth, which means that, unless there is action taken to reverse this trend, the pressure on the welfare system will only grow.

Fig. 3. Social benefits as percentage of average wage

Social benefit	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
The average public social insurance pension	46.4	44.7	45.1	43.6	45.2	42.6	40.8	38.6	40.3	37.2	35.9	34.3
Child allowance	10.5	9.7	7.2	5.4	4.9	4.2	4.3	3.9	7.4	6.2	4.3	3.2
Supplementary allowance for the 2nd child*	-	-	-	-	-	-	-	-	13.7	10.1	7.0	5.5
Income support		-	-	-	-	-	21.3	14.0	15.6	13.2	10.6	7.7
Support allowance (post unemployment benefit)		-	-	20.0	16.1	14.4	18.6	15.7	15.4	14.7	16.8	12.9
Integration allowance	-	-	-	-	-	24.7	20.1	17.0	18.8	17.9	21.9	17.4

**Since 1997, a supplementary allowance for families with 2 or more children was introduced; Source: ICCV*

Fig. 4. Decreasing rate of contributors

	Fully employed ('000)	Fully employed / population aged 15 – 60 (%)
1990	8,156	57.82
1991	7,574	53.53
1992	6,888	49.52
1993	6,672	47.77
1994	6,438	45.90
1995	6,160	43.76
1996	5,939	42.12
1997	5,597	39.69
1998	5,200	36.90
1999	4,737	33.75
2000	4,458	31.66
2001	4,505	31.99*

**estimate using the 2000 population data; Source: INSSE*

Fig. 5. Ageing population

	Population 15-60 ('000)	Population over 60 ('000)	Population over 60 / population aged 15-60 (%)
1990	14,105	3,632	25.76
1991	14,148	3,708	26.21
1992	13,908	3,778	27.16
1993	13,965	3,842	27.51
1994	14,026	3,901	27.81
1995	14,075	3,960	28.14
1996	14,098	4,009	28.44
1997	14,101	4,068	28.85
1998	14,094	4,130	29.30
1999	14,035	4,148	29.55
2000	14,081	4,199	29.82

Source: INSSE

The Romanian government rose to these challenges by planning an overhaul of the welfare system. The Isarescu administration initiated (but failed to see through) a comprehensive reform of the pension system. The current Government of Adrian Nastase has followed suit with a tidying up of the income support system, by introducing the guaranteed minimum income, and by revising the unemployment benefit.

Muddling through the pension reform

Romania had, in the early nineties, a healthy situation of pension funding. However, the political unsustainability of the 'Pay As You Go' (PAYG) scheme, and the demographic decline have bankrupted the system. The newly implemented Law on pension reform (19/2000) has improved the situation, by encouraging higher contributions over a longer period. However, this improvement does not go far enough. The current demographic trend and the motivational problem associated to a PAYG system, require the introduction of a funded scheme. Such a reform has the backing of the World Bank, and has been under consideration in Romania since 1993. Eventually, a law in this sense was passed during the final days of the previous administration. The Nastase cabinet, however, is not fully committed to implementing this reform. Its plans are still sketchy, the envisaged size of the funded sector is small, and the conditions set for its implementation are not encouraging.

The emergence of the crisis

Similarly to all the other former socialist countries, the Romanian pension system was a PAYG system, where the pension of today's pensioners is paid from the wage-related contributions of today's employees, and the quantum of the pension is somehow income related (with minimum contribution periods), but not directly related to the overall contribution. The key variable for such a system is the dependency ratio: the number of employees (contributors) per pensioner.

Romania started the transition in the 1990s with a healthy dependency rate of 3.43. This situation, however, rapidly changed (see Fig. 6). The main reason behind the spiraling dependency rate has been premature retirement. Taking advantage of the generous provisions of labor laws that allowed for normal retirement as early as 50 for women and 55 for men, and of the upgrade of a number of professional categories into higher risk categories (which allow for early retirement with full pension), scores of Romanian employees, confronted with the challenges of the transition economy, chose the relative security of early retirement.

Fig. 6. The dynamic of the dependency rate

	Dependency rate (contributors / pensioners)
1990	3.43
1991	2.69
1992	2.17
1993	2.10
1994	1.91
1995	1.75
1996	1.63
1997	1.48
1998	1.32
1999	1.16
2000	1.05
2001	1.00

Source: INSSE

The number of pensioners, therefore, increased rapidly (Fig. 7), and, by 1999, overpassed the number of employees paying contributions. The increase in pension liabilities was also combined with the shrinking of contributions, due to the economic decline over the transition period. These two factors have pushed the social insurance budget, by 1995, from a strong positive cash flow, into deficit (see Fig. 8).

Fig. 7. Increasing number of pensioners

	Average number of pensioners ('000)	Pensioners/ population aged 15 – 60 (%)
1990	2,380	16.87
1991	2,816	19.90
1992	2,996	21.57
1993	3,174	22.73
1994	3,358	23.94
1995	3,518	25.00
1996	3,651	25.90
1997	3,782	26.82
1998	3,923	27.83
1999	4,074	29.02
2000	4,246	30.15
2001	4,477	31.79*

** estimate using the 2000 population data; Source: INSSE*

Fig. 8. Financial situation of the Pension Fund

	Revenue (% of GNP)	Deficit (% GNP)	Revenue (billion ROL 1990)	Expenditure (billion ROL 1990)
1991	7.44	0.41	607.23	573.90
1992	7.77	1.06	558.50	482.05
1993	6.59	0.70	440.28	393.28
1994	5.65	0.10	397.62	390.37
1995	5.44	-0.23	419.67	437.32
1996	5.43	-0.17	455.21	469.59
1997	5.26	-0.02	397.99	399.73
1998	6.81	-1.01	438.16	503.42
1999	7.35	-0.25	492.56	508.75

Source: INSSE

The Government reacted to this worrisome trend, by increasing the contribution rate. Thus, since 1990, the old age pension contribution rate has more than doubled (from 17% to 35%). Romania's pension contribution rate is currently one of the highest amongst transition economies (see Fig. 11). However, these measures failed to alleviate the problem, because the increased taxation has pushed even more people out of the legal economy, mostly into the informal sector.

Therefore, the only compensation strategy that the Government has had, when faced with a growing number of pensioners and the lack of financial resources, has been to decrease the value of pensions. Fig.s 9 and 10 show the impoverishment of pensioners, both in absolute terms (the decrease of the real value of the average pension), as well as in relative terms (the decrease of the average pension as compared to the average wage).

Fig. 9. Pensioners' impoverishment (in absolute terms)

	Average real pension (%)
1990	100.0
1991	77.5
1992	63.7
1993	56.5
1994	55.3
1995	61.2
1996	62.8
1997	49.7
1998	48.5
1999	50.44
2000	46.90
2001	47.36

Source: INSSE

Fig. 10. Pensioners' impoverishment (in relative terms)

	Replacement rate (average pension /average wage), %
1990	44.7
1991	45.1
1992	43.6
1993	45.2
1994	42.6
1995	40.8
1996	38.6
1997	40.3
1998	37.2
1999	35.9
2000	34.3

Source: ICCV

Pension reform

The discussions about reforming the pension system started as early as 1992, when the first White Paper was published. However, the first major review of the system was only undertaken through Law 19/2000, which came into force on April 1st, 2001. This law reforms the state pension – the so-called 'pillar one' of the new pension system, which is envisaged. This reform was supposed to be supplemented by 'pillar two' – compulsory pension contribution managed by private pension funds, and by 'pillar three' – optional private pension. However, the second and third pillars faced strong opposition, amongst others form the Trade Unions, who wanted to have a stronger say in the work of the funded scheme. This disagreement delayed the adoption of the legislation by the Parliament. Eventually, the reform was enacted through an emergency government ordinance (OUG 230/2000) in the last days of the outgoing Isarescu government, which was subsequently abrogated in the first meeting of the new Government.

The pension law phased in an increase of the retirement age by five years (to 60 for women and 65 for men), and changed the method for calculating the pension from one based on the income in the latest years of activity, to one that takes into account the contribution over the whole working life. These changes should encourage people to stay longer in the labor force. In addition, it becomes the interest of employees to request their employers to fully report their wages, thus bringing into open some of the informal economy.

Limitations of the reform

However, the law does not guarantee a good return on the contribution. It only provides that somebody who had a higher contribution will have a proportionally higher pension, but not that it will be a good pension. This is where the private management of pension funds would prove useful. A funded scheme would allow for a higher return than the meager one provided by the state pension fund. In addition, a funded scheme would alleviate the political dependence of the PAYG system (the value of a pension point is decided annually by the government, and is, therefore, unpredicFig.), which represents its major motivational shortcoming. For a comparison with other CEE countries, see Fig. 11.

Fig. 11. Pension systems in selected CEE countries

Country	Reform	Date of introduction	Retirement age	Contribution level
Croatia	Three pillar system	1999	65 (both men and women)	25.4%
Latvia	Virtual capitalization	1995	60 (both men and women)	37%
Poland	Three pillar system	1999	65 men / 60 women	19.52%*
Hungary	Three pillar system	1997	62 (both men and women)	31%
Romania	Reformed PAYG	2001	65 men / 60 women	35%*

** Old age pension contribution only*

Trends

The demographic trend will continue to work against the pension system, with the working age population continuing to shrink as the Romanian population grows older. The unknown quantity here is the number of contribution paying employees. On the one hand, the economy has registered a good growth rate in 2001, but this performance is unlikely to be repeated in 2002. Last year's growth, however, led only to a modest increase in the number of jobs, in all likelihood because the higher output was achieved through higher productivity of the existing employees. In addition, it is expected that the economic restructuring will lead to more unemployment (the unemployment rate has already slightly increased towards the end of 2001). On the other hand, the crucial element will be whether tax evasion can be reduced, through employees in the informal economy joining the formal economy, and employers reporting the full earnings of their employees.

The pension law that has come into force provides the right incentives for helping the survival of the pension system. However, the system will face an increasing pressure from the ageing population, and faces uncertainty regarding the number of contribution paying employees in the future (which depends on the overall evolution of the economy), the industrial restructuring process, and the size of the informal economy.

A privately managed system would be helpful in mitigating the risks mentioned above. The Government, therefore, should adopt measures more or less in line with the emergency ordinance of the previous administration.

Challenges for the reformed system

- ***Doubtful results.*** The new law still has to produce its effects. Against government predictions, the initial data show that the deficit of the social insurance budget did not diminish. The best explanation for this fact is the high number of individuals who applied for retirement under the provisions of the old law, before the new legislation came into force. This effect can be expected to gradually fade away, but the actual impact of the new legislation is still not clear.

- ***Public hostility.*** A challenge faced by the new pension legislation is the ignorance and skepticism of public opinion. Opinion polls (SAR's own survey, presented in EWR 4/2001. p.35) have consistently shown that a majority of the population does not have enough information about the new pension system, but expects to be negatively influenced by it.
- ***New labor contracts?*** The Government's intention to eliminate the difference between full-time working contracts and freelance contracts is consistent with its overall approach to the reform of the pension system, but it also raises some concerns. In this context, it should be mentioned that, over the last two years, the difference in the tax regime for these two types of labor contracts has diminished. Both income tax, as well as employee health contributions, are paid for both types of contracts. Therefore, formally eliminating the differences between full-time and freelance contracts will, in all likelihood, not make a great difference on taxes and contributions paid to the state. Moreover, freelancers represent about one quarter of employees[130]. If, as a result of abolishing freelance contracts, these jobs move to the underground economy, the loss of revenue for the state will be considerable.

Introduction of the second pillar

As mentioned above, the PAYG system is supposed to be supplemented by the second pillar (compulsory pension contribution managed by private pension funds) and the third pillar (optional private pension). The World Bank supports the three-pillar structure of the pension system and the other CEE countries also plan to introduce such a system. The expected advantages consist in a better management of pension funds, with increased returns, which would encourage people to contribute and stay longer in the labor force. In addition, the capital of pension funds will stimulate the capital market, specially by increasing its liquidity, thus contributing to improving the overall economic conditions.

Financing the transition period

The new Government announced that the new draft law on the second pillar would be made public in autumn 2001, but it failed to keep this promise. The reform of the pension system, however, is part of the Government program, and is scheduled for implementation by the end of 2004. Though, there is one obstacle to the introduction of the funded system, namely the transition period between the moment when the new system is introduced (when the

[130] There are currently approximately 1.5 million freelance contracts and 4.5 million full time contracts registered.

working population starts contributing to their pension account), and the maturity of the system (when people will receive their pensions). *During this transition period, the contributions will be capitalized, and can no longer be used for paying the pensions of the current pensioners.*

There is a twofold solution envisaged for this problem. First, the size of the funded scheme will be small, and will grow only gradually. It is planned that it will initially represent only 2% of the wage, and will eventually increase to 8%. Second, the funded scheme will be introduced only when the budget of the pension fund is balanced. The government estimates that this should happen by 2004-2005, based on the expected economic growth and on the expected increase of the number of employees, associated with improved collection of the contributions, increased retiring age, and just a modest increase in the real value of pensions.

The Government's plan, however, treats the funded scheme as a luxury: it will be implemented when it is not needed (i.e. when the budget is already balanced), and it will be small in any case. The danger with this approach is that the new scheme may have little impact. Moreover, the economic expectations on which the timing of the reform is based, look shaky. If anything, the budget of the pension fund will be under serious pressure over the next few years, since the Government has promised the indexation of pensions according to inflation, and in December of this year it is supposed to start the three year process of 're-correlation' (by the end of which all pensioners with comparable professional record will receive the same pension[131]). The moral case for 're-correlation' is solid, but consecutive Romanian governments failed to achieve it, and the Isarescu cabinet even had to backtrack on its promise in an electoral year.

Beyond the fundamental questions concerning the size of the private scheme and the timing of its introduction, there are additional technical problems, which have to be solved.

The size of pension funds

The size of the funds is a matter of contention. Here, the Government faces a trade-off. Large pension funds (in terms of capital requirements and minimum number of registered people) would be more credible with the population, whose confidence was affected by the series of financial debacles, amongst which FNI is still fresh in memory. However, establishing high barriers for market entry would deter competition, thus reducing returns. Moreover, it would mean that the private pension fund industry will be dominated by foreign players, thus antagonizing the domestic allies of the Government who are interested in entering this lucrative business, in

[131] Until the implementation of the new pension law (19/2000), the quantum of the pension used to be determined according to the nominal wage. Due to the high inflation of the last 11 years, this algorithm led to paradoxical situations where people with the same profession received very different pensions, according to the year when they retired. This system was very unfair to those who had retired before 1989, or soon afterwards.

particular the trade unions. Their opposition already derailed the adoption of the legislation by the previous administration.

Regulation

Supervision will be crucial for the credibility of the scheme. After successive fiascos in the financial sector, entrusting one's savings (even if compulsory) to a private fund for 20 or 30 years, with the expectation that one will eventually receive a pension, requires a leap of faith. The stakes are very high, and any mistakes by the regulator would have dire consequences for the state budget, which will be the ultimate guarantor. From the institutional point of view, there are three possible options. One possibility is for the insurance 'watchdog' to also take over the supervision of the pension funds. Another option could be to establish a new specific regulator. Finally, one could also take into account the creation of a 'super-watchdog', which would cover the whole financial sector (banking included).

From the above three alternatives, the first one is probably the most feasible. Since most pension funds will be connected to insurance (specially life insurance) companies, the Commission for Insurance Supervision is well placed to also supervise pension funds. The Commission has the advantage that it acquired experience in dealing with the insurance companies. Moreover, setting up a new institution would be cumbersome, even more so if it has to cover the whole financial sector, wresting control of the banking sector from the Central Bank.

Investment policy

The draft bill is expected to limit the share of funds that can be invested abroad by pension funds, to 10%. The desire of the Government to have pension funds helping reviving Romania's capital markets, rather than worsen the balance of payments, is understandable. There are good reasons to be cautious, however. The domestic capital market is weak, and it does not have the capacity to absorb large funds (this is less of a problem over the short term, when the volume of the private pension contributions is capped to 2% of the wage). Additionally, investing abroad is essential for risk mitigation. Finally, a ceiling of 10% for investments abroad may be incompatible with EU accession criteria, since it infringes on the free movement of capital. Therefore, sooner or later, depending on the negotiations with the EU, this limit will have to be relaxed or removed altogether. It is worthwhile noting the pressure that is currently put on Poland, on the same issue.

The National Pensions House

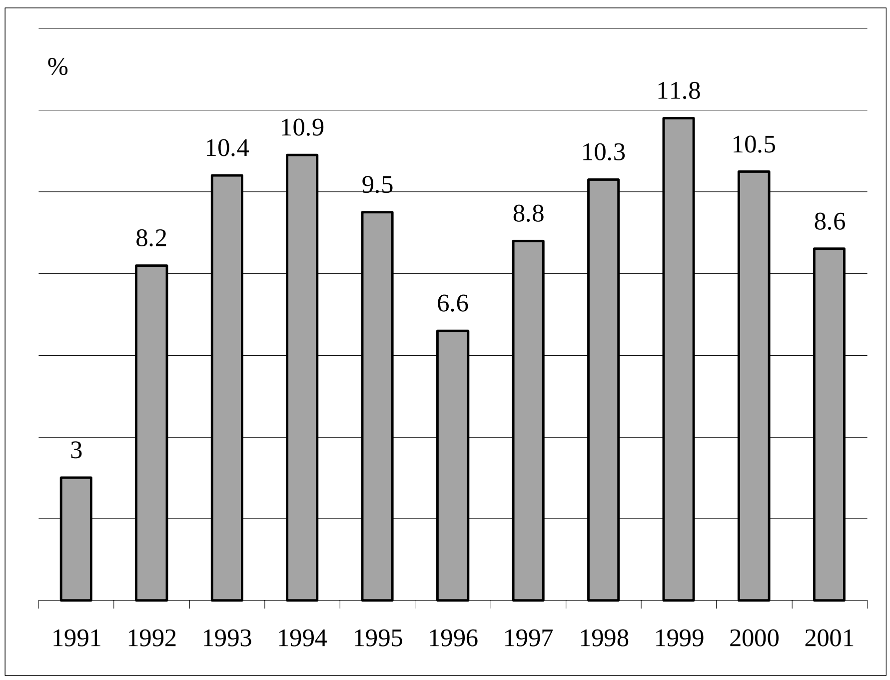
The introduction of the funded scheme will add pressure on the National Pension House, the government agency that manages the current public pension system. The National Pension House will continue to collect all the pension contributions. It will be its task to allocate individual contributions to the pension fund of choice. This, however, requires a sophisticated infrastructure, which in turn will require years of preparations.

The current reform of the public pension scheme has reached its limits. Policy mistakes in the early nineties have put the whole system on a very shaky footing, and the demographic trend is making things even more difficult. The solution, therefore, is to introduce a large funded component in the pension system, but this would raise formidable challenges for the Government, both in political and technical terms.

Unemployment policy

The good news regarding unemployment is that the unemployment rate has decreased in 2001, at its lowest level since 1996, and below the initial official forecast of 9.9% (see Fig. 12).

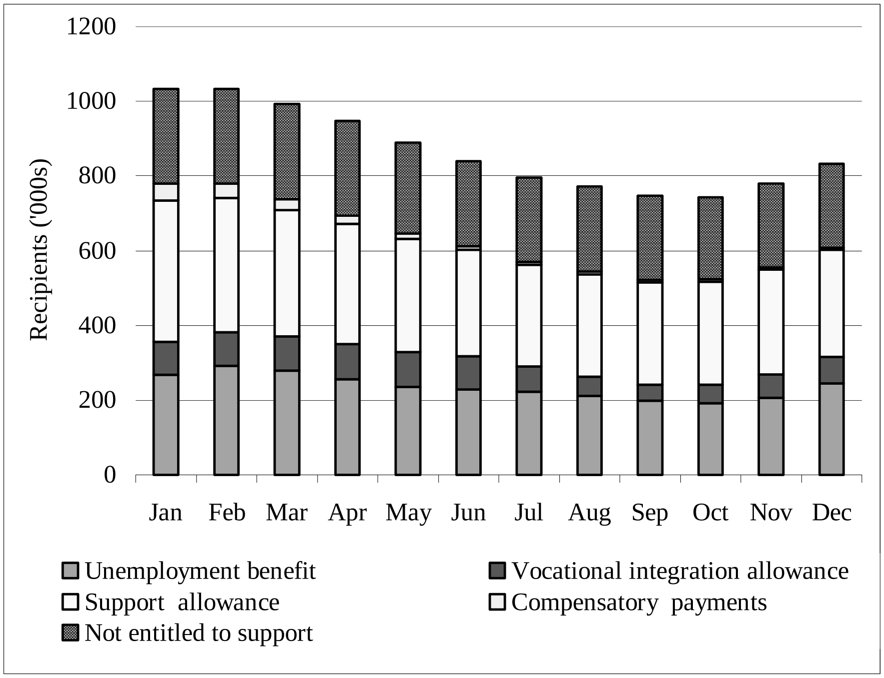
Fig. 12. Unemployment rate, 1991-2001



In 1999, when unemployment peaked above 11%, compensatory payments were seen almost as the only solution for avoiding social conflicts. By contrast, in 2001, the number of people receiving compensatory payments significantly decreased (to just 5,893 in November). More than 45,000 people were receiving such payments at the beginning of the year, but almost all of them lost their entitlement during the first half of 2001. The current Government bravely decided to restrict the use of compensatory payments, and to use them only as a last resort measure.

The Unemployment Fund also provides three other types of payments, namely the regular unemployment benefit, the support allowance (received after the expiration of the entitlement to the unemployment benefit) and the vocational integration allowance (employment subsidy). Their structure is shown in Fig. 13.

Fig. 13. Unemployment in 2001, by type of support received



In the above context, year 2002 will bring new challenges, namely the restructuring of the defense industry, and the fresh unemployment generated by the PSAL agreement with the Word Bank. Additionally, it is likely that, due to the new legislation on the minimum income guarantee[132], the officially recorded unemployment will grow in the coming months (in order to qualify for income support, one has to be registered as a job seeker, which may encourage people who are no longer included in the statistics, to register as unemployed).

There are two solutions envisaged for addressing these challenges:

- **The National Action Plan for Employment**, implemented by the National Agency for Employment and Professional Training, will receive more funds this year (up to 10% of the unemployment fund, as compared to 2-3% in the past).
- **The new law on employment benefits** will bring important changes in the labor market regulation. The unemployment benefit and the compensation payments will be paid in installments, and according to the contribution to the unemployment fund (i.e. the number of years in service, and the last salary), so as to preserve a purchasing power of

132 The income support will fill the gap between the guaranteed minimum income and the actual income of the family, other social benefits included.

at least 60 percent of the last salary received. Equally, starting with 2002, the other unemployment benefits will be incorporated into the guaranteed minimum income.

As mentioned above, the (recorded) unemployment will probably grow over the coming months. However, there is no serious threat for the unemployment fund, even if the official unemployment rate again exceeds 10%. By contrast, the unofficial unemployment and the black labor market should be a matter of concern for the Government.

Poverty Alleviation: Guaranteed Minimum Income

Poverty has constantly increased during the transition period. Both the poverty rate and the extreme poverty rate doubled have since 1995 (Fig. 1), and Romania currently has the fourth highest poverty rate in Central and Eastern Europe (Fig. 2).

Sources of poverty

Fig. 14 shows the breakdown of poverty amongst the Romanian population. Contrary to common wisdom, poverty is most prevalent not amongst pensioners, but amongst young families with many children, the unemployed and even the self-employed (Fig. 14). Over 80% of the families with 4 or more children live in poverty (Tab. 15).

Fig. 14. Poverty rate by occupation of the head of household

	Poverty rate
Employee	29.7
Retired	25.6
Farmer	57.4
Private entrepreneur	10.1
Self employed	53.9
Unemployed	59.8

Source: Tesliuc, Pop, Tesliuc, 2001.

Fig. 15. Poverty rate by age and number of children

	1995	1998
Poverty rate by number of children:		
- no children	16.4	23.5
- 1 child	24.6	35.0
- 2 children	30.1	43.6
- 3 children	52.8	64.6
- 4 children or more	71.7	83.6
Poverty rate by age:		
- under 7 years	30.2	37.7
- 7 - 15 years	37.1	48.7
- 16 - 25 years	34.3	45.5
- 26 - 35 years	21.7	31.0
- 36 - 45 years	26.0	36.1
- 46 - 55 years	23.7	32.3
- 56 - 65 years	14.5	21.0
- over 65 years	9.7	11.4

Source: Tesliuc, Pop, Tesliuc, 2001.

Poverty is also correlated with low education. A household whose head did not attend secondary school is 7 times more likely to live below the poverty line, than a household headed by a university graduate (see Fig. 16).

Fig. 16. Poverty rate by educational level of the head of household

	Poverty rate
No schooling/primary school	42.00
Secondary school	41.00
Vocational training	40.00
High school	22.00
College	19.00
University	6.00

Source: Teshuc, Pop, Tesliuc, 2001.

Poverty alleviation

Romania has been using a wide array of instruments to fight poverty. Most of social expenditure is accounted for by the employment related contributory benefits, the most important being healthcare, pensions, and the unemployment benefit. Additionally, education is provided free by the state.

In what concerns the non-contributory benefits, there has been a shift from universal benefits to means-testing. The only large universal benefit, which is still in place, is child allowance. The means-tested income support was introduced in 1995. However, as shown above, during the transition years the value of social benefits has decreased dramatically (Tab. 3).

Guaranteed minimum income

The guaranteed minimum income was one of the key campaign pledges of the current Government. The Parliament has swiftly enacted it through the

Law 416/18 July, 2001. Starting with 2002, the income support will bridge the gap between the guaranteed minimum and the actual income of the family, other social benefits included. Equally, there is a supplementary heating allowance for income support recipients, and the universal child allowance has been substantially increased.

The minimum income guarantee integrates a number of social benefits:

- income support, burial support and emergency relief, funded from the local budgets.
- child allowance, and the allowance for the wives of conscripts, funded from the central budget.

The income support will continue to be provided by the local governments, but 80% of funds are expected to come from the central government, through earmarked grants. Apart from cash transfers, the income support may include goods or services.

Poverty-trap

The problem commonly associated with means-tested benefits is the disincentive to work. Since any increase in income is offset by the decrease in the amount of the social benefit, the marginal utility of labor is very low. The result of this situation is the so-called 'poverty trap', which means that people do not find worthwhile taking the pain of a regular job, and, therefore, do not acquire the experience needed for advancing to better paid positions.

However, field research funded by the World Bank has found little support for this theory in Romania. If true, this is a refreshing conclusion. Because of their low administrative capacity, the Romanian authorities are hardly able to verify the income statements of the applicants for social benefits. As a result, the most probable effect of means-tested benefits in Romania is to drive the recipients of social assistance towards the black market, rather than idleness.

Equally, the Law on the guaranteed minimum income includes safeguards against the disincentive to work. Able recipients are required to perform up to 72 hours of community work per month, and those legally employed receive a 15% higher income support.

Implementation problems

The Achilles' heel of Romanian income support has been its reliance on local administration. Fig. 17 and 18 paint a dramatic picture of the ability of the local government to implement means-tested benefits. In 1995, the distribution of such benefits was done by the central Government. Since 1996, it has been transferred to local administration. Facing such a big administrative and financial challenge, the local administrations failed, to a large extent, to implement the measure properly. In 2000, the number of families receiving income support represented just 6% of those who received such support in 1995.

Fig. 17. The number of families receiving income support (end of year, 1995= 100)

Year	1996	1997	1998	1999	2000
%	49	26	22	15	6

Source: Ministry of Labor and Social Solidarity

Fig. 18. Real expenditure for social benefits (1995 = 100)

Year	1996	1997	1998	1999	2000
%	144.2	47.6	30	14.8	-

Note: The 1995 expenditures covered only the last quarter of the year. Source: Ministry of Labor and Social Solidarity

In 1994, the number of households qualifying for income support was estimated at 659,000, that is to say around 12% of the population. By 1998, only 50,000 households, representing 0.5% of the population, were actually receiving income support.

The guaranteed minimum income policy may well have the same fate. The Ministry of Labor and Social Solidarity (MMSS) estimates the number of those who should benefit from the guaranteed minimum income, at 600,000 – 750,000 (which is a comparable number to those entitled to income support in 1995). Under a comparable administrative and budgetary burden, local administration might crack again, like it did in 1996.

By 2000, most local authorities, specially in rural areas, had practically stopped distributing the income support. Under the present provisions of the Law, a large share of beneficiaries of the guaranteed minimum income will be living in rural areas (e.g. pensioners from the former socialist farming system), which will create a huge pressure on the local authorities in rural communities.

Financial feasibility

In 1994, the income support covered 87% of the extreme poverty threshold, and 58% of the poverty threshold. By 1998, however, its real value had eroded to only 48% of the extreme poverty threshold, and 32% of the poverty threshold.

In 1997, income support amounted to only 0.05% of GDP. The Government now expects the guaranteed minimum income to increase this amount to 0.4% of GDP, that is to say an eightfold increase.

Conclusions and recommendations

- The guaranteed minimum income policy confirms the Romanian government's orientation towards means testing, and away from universal benefits. This option is indispensable, given the current financial situation of the country.
- The guaranteed minimum income includes measures to mitigate the disincentive to work, which is usually associated to means-testing.

- The guaranteed minimum income is part of a broader approach to poverty alleviation. It combines cash benefits with in-kind benefits (e.g. school allowance for pupils), and special measures for high-risk social groups (e.g. Rroma). This approach should be promoted by developing social assistance programs, as an alternative to cash benefits.
- The Government is right in identifying the link between children and poverty. The substantial raise in child allowance is welcome from this perspective.
- The Romanian welfare support system is now well targeted to reach the poor, at least in theory. Its main problem continues to be the lack of resources.
- Child allowance, as a universal benefit, should be abolished, and replaced with a means-tested aid, which would also be consistent with the recent reforms. Large amounts of money are currently spent to support families who are relatively well-off, and where it makes an irrelevant addition to the household's income.
- Equally, when establishing the guaranteed minimum income guarantee, the Government should factor the difference in the cost of living between rural and urban areas, and should, therefore, use different thresholds. This would lead to an equalization of the real – not nominal – value of aid, whilst at the same time it would ease the burden placed on local authorities from rural communities.
- As proven by the experience accumulated since 1995, if the central Government fails to provide the resources for income support, local administrations will unable to cope with the burden, and the whole policy will become an empty promise that will foster frustration. Should the situation of public finances worsen, the government would be better advised to narrow down the scope of the policy, from over 10% of population at present, to a more manageable number.

Romania has made some progress towards the rationalization of the welfare system. The incentive structure of the public pension system has been improved, the wasteful system of large compensatory payments for collective redundancies took a step back, and the guaranteed minimum income has integrated the different income support measures into one single scheme. However, outstanding challenges remain. Income support may prove to be a burden hard to bear for the overstretched local governments. The most daunting, yet most promising, task remains the introduction of private pension funds.