THE RETIREMENT RISKS OF ROMANIA'S "DECREE" GENERATION

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Abstract: *After the Second World War, Romania's population registered a decrease in numbers due to a high male death ration resulting from casualties. As the country started to recover from the social and economic effects of the war, the new political ideology - the socialism, started to steer the country in a new direction. Under its leadership, a boom in growth started occurring resulting in new economic production infrastructure being constructed. Thus, the necessity appeared for a much larger labor force to occupy the rising demand. To address this necessity, legislative changes were introduced to "encourage" childbirth, primarily through signing into law Decree 770 on the 2nd of October 1966. This resulted in approximately 1.5 Million newborns between 1967-1969, which will retire after 2030. In this paper, I will summarise the effects of this large portion of the population will have on the economy by applying the adequate statistical methods. The expected results would generate a rise in social security expenditures and an increase in older dependency ratios resulting in a higher burden on younger generations and causing a more significant drain of public resources. On these perspectives, I underline the main solutions in order to overcome or to reduce them.*

Keywords*:* Baby boomer, Decree generation, Birth rates, Pensions, Dependency ratio.

JEL Classification Codes: C12, J11.

1. INTRODUCTION

The demographic transition process in Romania overlaps with events that have influenced the demography, such as the two world wars (birth deficiency), followed by well-known periods of recovery (marriages and births) and demographic policies enacted at the end of 1966, that produced a strong impact not only on fertility but also on mortality (Presl, 1991). The most dynamic phase was visible between 1945 and 1965, characterized by a rapid decline in both mortality and birth rates, prompting arguments from scientific circles that the demographic transition would have largely ended in this interval (Presl, 1991). The forced prenatal policy, initiated in November 1966, altered the birth rate, causing oscillations in its level, meanwhile, mortality had a contradictory trajectory. After the events of December 1989, demographic tendencies have been marked by new trends, more or less predictable.

Romania's pension system is under tremendous strain due to high expenditure from an increasing number of dependent individuals, leading to increases in spending's, that tend to climb much faster than collected income, thus resulting in a lack of financial resources meant to cover current expenditures (Cristea and Mitrică, 2016; Cristea andThalassinos, 2016). Due to pronatalist policies enacted during communist rule, a spike in birth rates occurred resulting in a "baby boom" known in current scientific literature as "decree baby's", these generations will approach retirement within the next decades, causing further strain on the pension system.

This paper analyses the main causes of the demographic boom that occurrent in the ’60 and ’70 and present the main impact of these “decree” generation retiring through statistical means on pension expenditures at a national level. The expected result is an increase in the number of retirees resulting in an increase in pension expenditures as % of GDP.

2. THEORETICAL FRAMEWORK

In Romania, as in the other Eastern European countries, the state's concern for demographic changes resulted in a set of laws and measures meant to enforce a pronatalist policy. Compared to other countries, in Romania, the character of these measures was compulsory, accompanied by a coercive implementation with the intent of reaching goals set out by official decree.

By the end of 1989, the Romania’s population was subjected to a series of legislative “experiments” by the ruling Communist Party, who at the time believed that they could direct the evolution of a phenomenon as complex as fertility only by restrictive abortion measures, leaving out the socio-economic and cultural determinations of the phenomenon (David, 1990).

Population aging is one of the determining causes of policy changes due to an ever-increasing number of elderlies. As a phenomenon, population aging is caused on the one hand, by the fact that individuals tend to live longer (life expectancy at 65 years increases significantly), on the other hand, by generations that are approaching retirement age like the generations born by decree between 1967-1989.

In the period following the Second World War, the birth rate was already in the second phase of the demographic transition process, where it had a "forced" evolution due to the strong intervention of the state.

The measures implemented can be divided into two categories: *coercive measures* such as the prohibition of abortion, and incentive measures, such as support for mothers and families with children.

Changes in abortion legislation (Presl, 1991):

- Decree 456/1955 abolishes the restrictions on abortion (entered in the Criminal Code of 1948) if it is done by a doctor and for certain categories of life-threatening risks to the patient;
- Abortion is authorized without any condition by Decree 463/1957. In 1956, the first form of help for families with children was introduced under the name of the “state allowance for children”.
- Decree 770/1966 marks a brutal and unexpected rupture: the complete ban on abortion. It is the beginning of the period of coercive natalist politics. In the same year, the tax on the income of single-parent and unmarried couples was established, which will become, in time, substantial. Also, in 1966, Decree 779/1966 gives divorce a completely exceptional character, being very difficult to achieve in practice.
- The Plenary of the Central Committee of Romania’s Communist Party (R.C.P.) in June 1973, during which the Secretary-General criticized doctors for the loss of birth, triggered a series of measures for a more rigorous application of the 1966 Decree. These measures, very unpopular, would be complemented four years later by measures such as decree 246/1977 which increased state child allowances and introduced other forms of assistance to numerous families.
- In March 1984, as fertility declined alarmingly, below the generational replacement threshold, the Executive Political Committee of the R.C.P. takes the decision to increase the responsibilities of political and health authorities in monitoring compliance with anti-abortion measures.

- Finally, at the beginning of 1990, the new transition government abolished all unpopular measures, abortion being the only one that was authorized.

It should also be mentioned the shift of direction that occurred in terms of the objectives pursued by the forced pronatalist policy. If in the first phase the objectives were qualitative (increasing birth rate, fertility recovery, sustained demographic growth or maintaining the youth of the nation), in 1974 the main objective became quantitative. Thus, the R.C.P. stipulated that the population of Romania would reach 25 million in 1990 and 30 million in 2000. This utopian objective exceeded the real number by more than 2.3 million in 1992 and would probably exceed almost 8 million in the year 2000 (Presl, 1991).

Female fertility as seen through the birth rate is of paramount importance for knowing the trajectory of both the total population and the active population, on which the sustainable development of a nation depends to a large extent.

In the last five decades, the birth rate gives the image of a general trend of continuous decline, this decline, however, started in the early days after the Second World War and intensified between 1957 and 1966, the downward trend was temporarily halted in the late 1960s, after which it resumed Since the '90 this tendency has accelerated signaling a drastic decrease in fertility.

With the emphasis on increasing birth rates, other measures, such as Decree no. 954 of December 1966 granting financial aid at birth was introduced, also, a few days after Decree no. 954 was signed into law, Decree no. 1086 was also introduced introducing an increase in income tax to individuals without children, the general increases were of 10 and 20% respectively (depending on income and categories of taxpayers) taxes, paid by persons over 25 years old, men and women without children, regardless of the marital status (Berelson, 1979).

In 1985, a child-raising allowance is introduced for mothers who have more than one child and a supplementary allowance for those with five or more children. At the same time, the monthly contribution of the individuals without children is increased, with the argument that individuals without children have the duty to participate in the accumulation of funds necessary for the education of new generations.

To create a more complete picture, an analysis can be made using time as a common denominator for the birth rate in three key moments where demographic policy measures have marked the evolution of fertility as noted below:

I. 1957, when abortion was liberalized;
II. 1966, when the conditions for carrying out abortions are drastically reduced;
III. 1990, when, after the fall of the communist regime, all restrictive abortion measures were abolished at the end of December 1989.

It is important to note that two of these moments are placed within the communist period, while the latter marks the end of it. Thus they delimit distinct stages of demographic policy that caused implications in fertility levels in Romania after the Second World War.

In the first stage, no significant political ideas or specific demographic policy measures can be observed with the purpose of modifying, in one way or another, reproductive behavior. In other words, there is a continuity between the situation before the establishment of the communist regime and that of the first decade of this period when fertility is carried out under natural conditions, that is, it is influenced only by the social context of each moment or sub period.

In the second stage, a measure of decriminalizing abortion is implemented in a special political context and promoted for demographic purposes, having a clear influence on fertility.

The third stage, 1966-1989, is the only one that can undoubtedly be characterized by the adoption of measures with an official demographic objective: population growth.

After the fall of the communist regime, even when fertility rates reached a very low level, the government did not adopt any explicitly demographic measure, trying to hide the goals of population growth as family planning policies, without consistency and force, which did not have any effect on the recovery of fertility, but only slowing down its decline to even lower quotas.

In the early postwar years, for which we have information on fertility, they are marked by a temporary recovery according to values estimated, where fertility reached about 3 children/woman in 1947 and will reach a maximum of 3.5 children/woman in 1949, then starts to oscillate until 1955 but without decreasing below the threshold of 3 (Gheţău, 1997).

3. MATERIALS AND METHODS

Romania's population for the last century has gone through a series of transformations due to external (two world wars) and internal forces (socio-economic, political and environmental) that shaped the demographic profile for decades to come. After the Second World War, Romania's demographic saw a steady recovery, but this did not meet the goals of the new leadership of the Communist Party that came to power in 1945. Population growth was not a concerning factor since dependency ratios for the young and elderly were relatively low, and a sustainable level of replacement could be guaranteed for the foreseeable future.

The data used in the statistical analysis was procured from the official sources included in databases offered by Eurostat and Romania's National Institute of Statistics (NIS) between the period of 1941 and 2016, with projections made between 2016 and 2060.

4. RESULTS AND DISCUSSION

As the country's production base and economic output grew at a rapid pace, the central planners within the communist party set a goal of increasing the population base to meet future growth objectives, thus in order to understand the demographic and economical implications of these undertaking we must analyze the demography as seen through crude birth rates, death rates and life expectancy gains and also try to understand future effects that the "decree" generations will have on pensions and public spending in the coming decades.

4.1 DEMOGRAPHIC UNDER SOCIALISM AND AFTER

Romania's population registered between 1948 and 2016 varying fluctuations in key defining indicators of population development, through the birth rate and death rate, as can be seen in Figure 1. After the Second World War, the crude death rate began to plummet since no war-related causes were affecting the population. Thus, a decline from 15.6 deaths per thousand in 1948 to a low of 9.9 deaths per thousand in 1955 occurred, this trend continued to a minimum for the entire period of 8.7 deaths in 1958 (Figure 1). Between 1958 and 1996, the crude death rate began to rise gradually due to a number of causes (hygiene, lack of specialized medical care, food shortages and diseases) to a high of 12.5 deaths per thousand.

The crude birth rate, as mentioned in the previous section, was influenced by natural and compulsory factors through legal means that dictated and changed the natural pattern in the crude birth rate during the period under analysis. Between 1948 and 1966, as can be observed in Figure 1, a sharp decrease can be discerned from 23.9 births per thousand to a low of 14.4 births per thousand, however in mid-1966, due to the measures implemented by R.P.C, a jump to 27.4 births per thousand was registered in 1967, this is the start of the "decree" generation that cumulative reached an approximative level according to the Census conducted in 1977 to a 2,512

thousand individuals at a rate of 252 thousand individuals born per year between 1966 and 1977 (NIS, 1977).

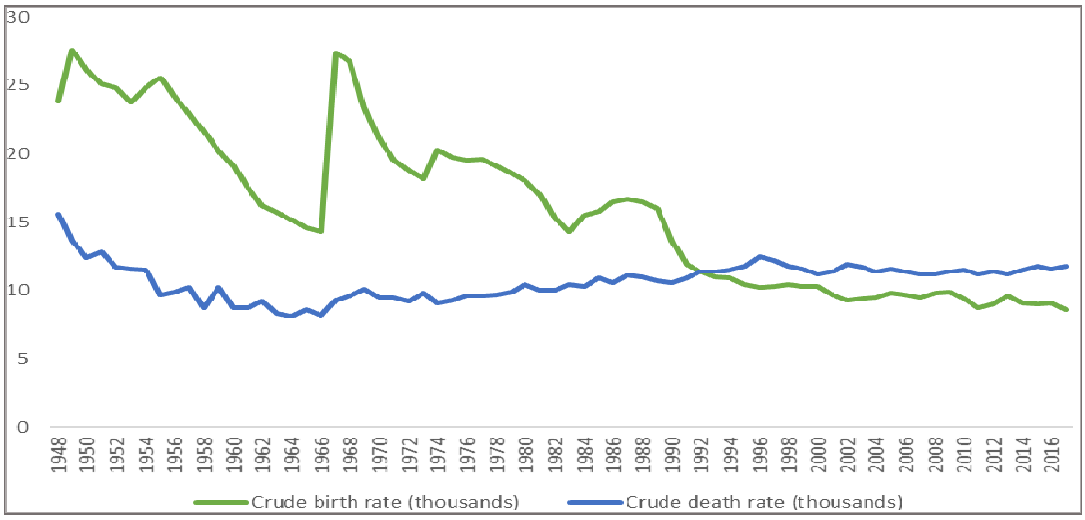

Figure 1. Birth rate and death rate evolution
Source: Own creation, based on NIS of Romania Data

This, for the most part, is a remarkable achievement considering past trends that present a rapid and concerning decline. The measures implemented through decree, were not successful for long leading to a reversal and subsequently to a decline to 14.3 births per thousand in 1983, followed by an increase to 16.7 births per thousand in 1987 then subsequently decreased to a level of 8.6 births per thousand in 2017.

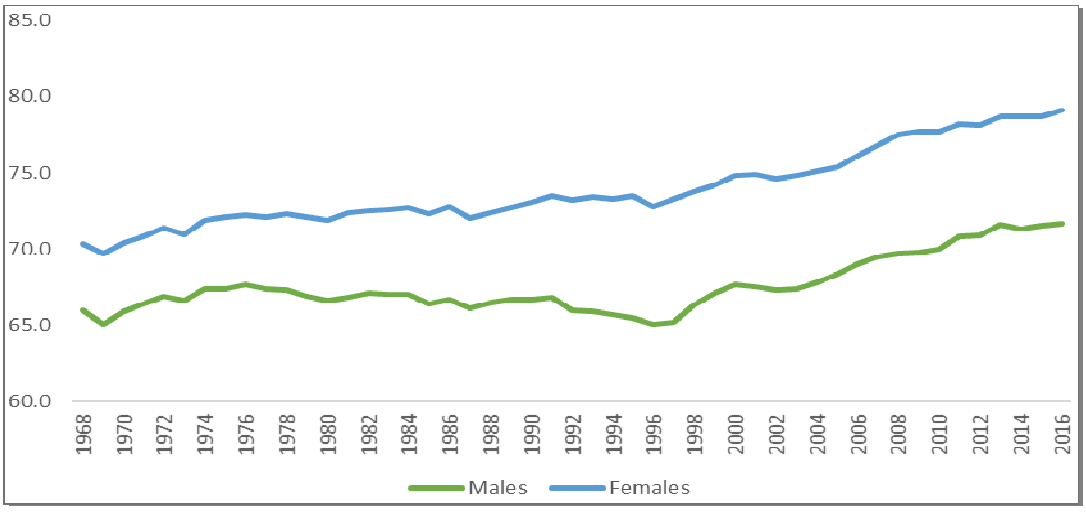

Figure 2. Life expectancy for males and females
Source: Own creation, based on Eurostat Data

An adjacent factor in population aging within generations born before and after the coercive measure of forced population growth implemented by the socialist government of Romania, is the rise in life expectancy, that as can be observed in Figure 2. Life expectancy for males between 1968 and 2016 rose from 66 years of age to 71.7 years of age in 2016, and for

females grew from 70.3 year in 1968 to 79.1 years in 2016 (Figure 2). This results in a gain of approximatively 5.7 years for men in the time span under analysis, and of 8.8 years for females.

4.2 DEMOGRAPHICS AND RETIREMENT TRENDS

In predicting future trends, it is important to note that past event create them, as such in line with the current course, Romania's population will continue to decrease due to demographic phenomenon in the period spanning from 2016 to 2060, as the forecasts presented in Table 1.

Table 1. Total population and age group projections

Population Projections	2016	2020	2030	2040	2050	2060
Population (thousands)	19.672	19.199	17.965	17.029	16.301	15.664
Population age 0-14 (% of Total)	15.3%	15.2%	14.9%	14.6%	14.8%	15.2%
Population age 15-64 (% of Total)	67.1%	65.4%	63.2%	58.6%	55.2%	54.1%
Population age 65 + (% of Total)	17.6%	19.4%	21.9%	26.8%	29.9%	30.7%

Source: Own creation, based on Eurostat Data

Between 2016 and 2020, the population is forecasted to decline from 19.67 Million to 19.12 Million, in 2030 a significant decrease can be observed when the population drops to 17.96 Million in a very short period of time. Between 2030 and 2060, the population levels will further decline from 17 Million in 2040 to a concerning level of 15.66 Million inhabitants in 2060.

Table 2. Retired, active population and old-age dependency ratio projections

Dependency Projections	2016	2020	2030	2040	2050	2060
Number of people aged 65+ (thousands)	3463.2	3716.1	3941.3	4567.1	4880.3	4804.7
Working age Population 15-64 (thousands)	13192.9	12563.5	11355.6	9983.4	9002.7	8480.3
Old-age dependency ratio (Population age 65+/ Population age 15-64) x100	26.25%	29.58%	34.71%	45.75%	54.21%	56.66%

Source: Own creation, based on Eurostat Data

When analyzing the population's structure, the share of population with an age of 65 years and older as can be observed in Table 2, tends to increase as projections show, to 3,463.2 thousands in 2016. This increases that are projected to occur at a steady pace will have significant consequences for public spending and investment decisions. Between 2020 and 2030, the number of the population age 65 years and older, is expected to increase from 3,716.1 thousand to 3,941.3 thousand, this trend is forecasted to continue at an accelerated pace reaching 4,567.1 thousand in 2040, and, in 2060, a small decline can be observed to 4,804.7 thousand (Table 2).

The old-age dependency ratio between 2016 and 2060 will continue to increase due to the decline in working-age individuals and the increase in the number of individuals age 65 and over, more than doubling from 26.25% in 2016 to 56.66% in 2060 (Table 2).

It is interesting to observe in Figure 3, that even with a declining retirement level, that is projected to decrease gradually in the period under question, expenditures with pensions are projected to increase, this scenario is mostly caused by an increases in life expectancy, causing the number of pensioners to swell until according to projections a reversal will occur starting in 2050. This inference is based on the total number of individuals with an age of 65 years and older that will increase until 2050.

When analyzing the estimated numbers of individuals that will reach retirement age, we can observe a decline from 2016 levels, when 215.5 thousand individuals retired, this level is projected to decline to 184.7 thousand retirees in 2020 and 143.7 thousand in 2030. Between 2030 and 2040 a noticeable increase can be observed due to the result of the rising of the decree generations retiring, reaching 199 thousand persons. This level will continue decreasing to 176.5 thousand in 2050, in 2060 reaching a minimum for the projected period of 131.7 thousand.

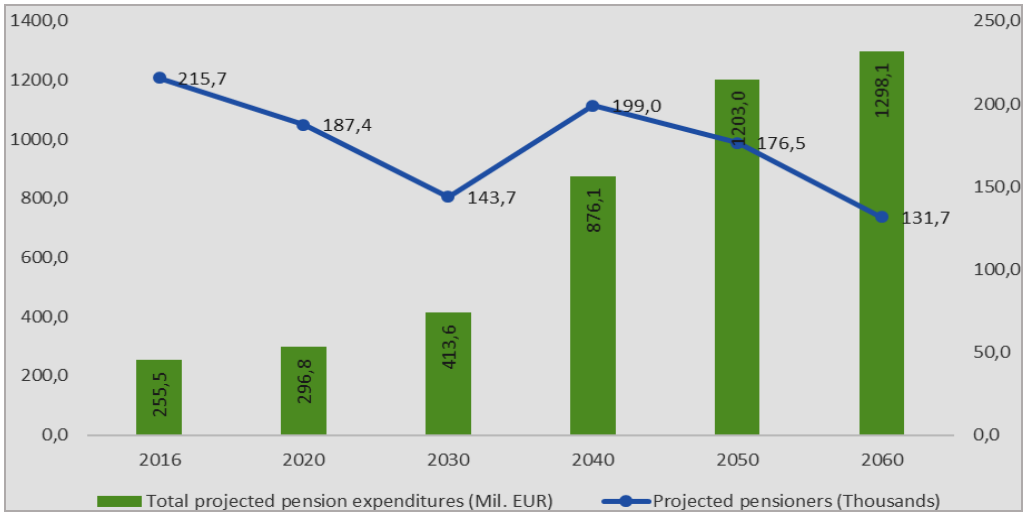

Figure 3. Projected pension expenditures and number of expected pensioners

Source: Own creation, based on Eurostat and The 2018 Aging Report Data

The total projected pension expenditure are forecasted to increase due to a number of economical and social factors (Drăcea, et al., 2009). In 2016, expenditures with public pensions recorded 255.5 Million Euro, this level will continue to increase to 296.8 Million in 2020 and 413.6 Million in 2030. A significant jump in expenditures can be observed in 2040 when a doubling to expenditure is projected to occur to 876.1 Million Euros, due to a large portion of the decree generation retiring, this increase continues in the following decades reaching 1,298.1 Million Euros in 2060 (Eurostat, 2018).

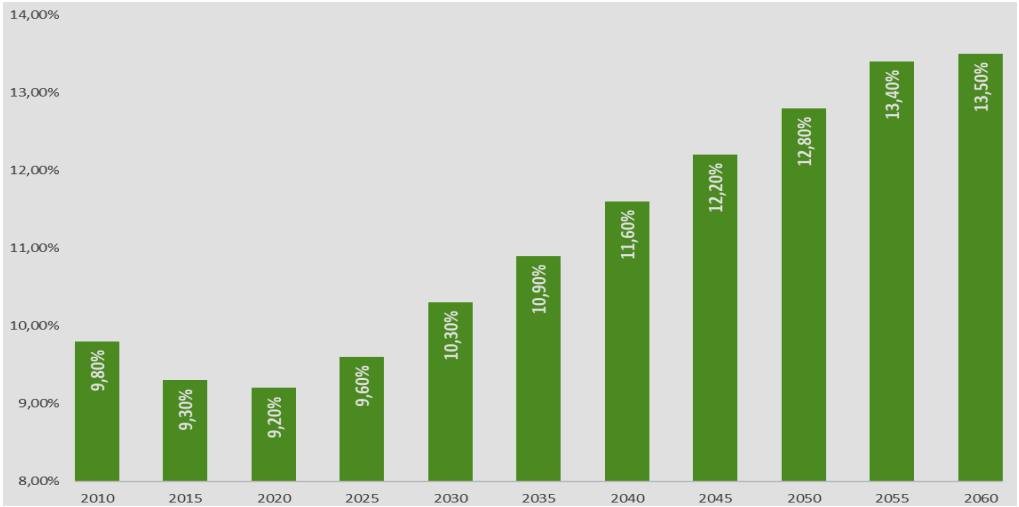

Figure 3. Projected pension expenditures as % of GDP

Source: Own creation, based on Eurostat Data

5. CONCLUSIONS

Romania's pension system is passing through a difficult period due to the increasing number of pensioners and due to the declining number of active workers, thus resulting in a rise in the old-age dependency ratio. As the "decree" generations are approaching retirement between 2025 and 2040, an increase in pension expenditures is expected from 9.20% of GDP in 2020 to 12.20% in 2045. This increase will create a lot of tension with the economy resulting in fund being transferred from other key sectors of the economy to service the rise in expenditures. These changes will undoubtedly cause intergenerational tensions, younger generations seeing themselves obliged to sustain a larger elderly generation. Thus, measures need to be implemented to ease tensions, in part financial education of the elderly must take center stage through different means public and private, encouraging an increase in savings and investments in private pension funds and other investment vehicles assuring a rise in retirement benefits, active and passive labour market policies (Noja and Cristea, 2018). This however will not be feasible on the vast majority of the "decree" generations, but will help in easing the financial burden, this approach should not be intended to help solve the issued but to assure a more frictionless future within a country that is aging at a rapid pace.

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