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Romanian Pension Reform in Comparative Perspective[1)]

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1. Introduction

Romania is deemed to be a less-developed former Soviet block country with complicated industrial structure, and it is also widely accepted that it has not conducted full radical market oriented reforms until now. In the sphere of pension reform, the Romanian governments and parliaments showed a timid attitude towards the problems and the speed of the pension reform in Romania is much slower than in Hungary, Poland, Latvia and so on. Although the World Bank has been recommending Romanians radical pension reforms since 1996[3)], Law No. 3 of 1977 had been effective with many amendments (Ticlea & Tufan, 1994, pp. 134-165) until the beginning of 2001. Under this law, which prescribed a PAYG [Pay-As-You-Go]/DB [Defined Benefit] type pension system, the entry condition had been relaxed since 1989. The reasons why they are so slow can be given only after overall examination of the economy and society of Romania. Here, however, we will try to answer the question by comparing the conditions of socio-economic structure with other transition economies and then we will show recent interest movements in the sphere of pension reform, which can be interpreted as a result of the slowness of the Romanian reform process.

2. Social and Economic Conditions of Romania for Pension Reform

2.1 Demographic tendency

Romania's population is the second largest in Central and Eastern Europe with about 22.3 million people. The demographic tendency of Romania has not been straightforward and traced a zigzag course influenced by several factors specific to Romania. The characteristics of the demographic trend of Romania since 1990 are the following.

(a) After 1990 the fertility rate of a Romanian woman has been decreasing to an extremely low one, reaching 1.3 in 1998. It is a result of people's reaction to the pro-birth policy of the previous regime in the past 30 years, which was initiated by Ceausescu in 1966.
(b) On the contrary, the death rate has been kept at the previous level and even increased in some years. Therefore the natural increasing rate of the population has been negative since 1992 until now.
(c) Therefore it is true that ageing of the Romanian population is proceeding as fast as in the other transition countries, but it will advance with some special features to Romania. People over 65 will increase and people at working ages of 16-64 will decrease both at a considerable rate from 2029 and 2015 onward respectively.
(d) Apart from the natural flow of the population, there was a strong social tendency of outflow migration from Romania. From 1990 through 2000 total net migrants (immigrants minus emigrants) were -239.4 thousand. This population decrease was more than the natural population decrease in the same period (Vasile, 2002, p. 41). However, it must be noted that the surge of emigrants has calmed down in recent years and that repatriation of Romanians is also observed (Vasile, 2002, p. 12).

Table 1 shows the "old-age dependency rate" of four transition countries. Here the "old-age dependency rate" means a number of the people over 60 divided by a number of the people at ages of 20-59. In Table 1 Romania represents a peculiar status in the transition countries in the sense that the figure increased from 29.7 to 33.6 whereas the figures of other countries were stable. This and other official demographic statistics suggest that ageing of the Romanian population started before the transformation of

Table 1. Old-age Dependency Rate[1] of Selected Transition Countries

	1989	1990	1991	1992	1993	1994	1995	1996
Hungary	35.0	35.5	35.8	36.0	36.1	36.1	35.9	35.6
Poland	28.0	28.6	29.0	29.0	29.5	29.6	29.8	29.9
Czech Republic	33.5	33.8	33.8	33.7	33.4	33.0	32.5	32.0
Romania	29.2	29.7	30.2	31.6	32.1	32.4	32.7	32.9

Note) [a] =60+years old in % of 20-59 years old.
Source) Hungary, Poland, the Czech Republic : Schrooten, Smeeding and Wagner, 1999, p. 28.
Romania : Culcurated by the author using the data of *ASR*, 2000, Table 2.1.3.

Table 2. Future Old-age Dependency Rate[1] of Selected Transition Countries and Europe[2]

	2000	2010	2030	2050
Europe	21.7	23.6	36.6	47.5
Eastern Europe	18.8	19.4	31.0	44.1
Albania	9.5	11.4	20.2	29.8
Bulgaria	23.4	24.1	33.7	52.0
Czech Republic	19.5	21.9	37.7	60.6
Hungary	21.5	23.0	31.8	48.2
Latvia	21.0	23.4	33.0	44.9
Poland	17.5	17.7	31.8	44.8
Romania	19.3	20.3	28.8	53.9

Notes) [1]=65+years old % of 16-64 years old.
[2]=Calculated by the ILO using the data of World Population Prospect of the UN (version of 98).
Source) Fultz & Ruck, 2001, p. 22.

the regime and is recently approaching the level of the Czech Republic[4].

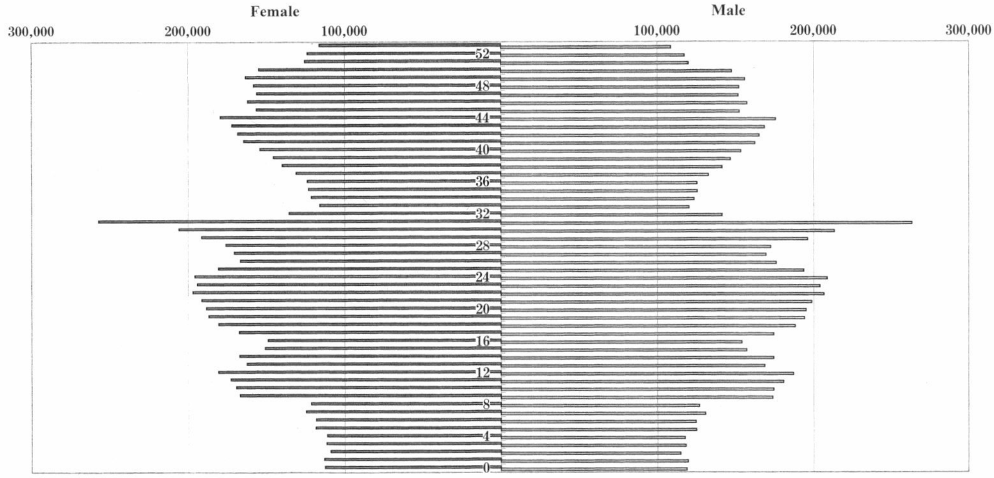
These data, however, do not reflect the total effect of the above-mentioned tendencies, because most of the effect will be realized in the future. For the future trend, we can use the United Nations' World Population Prospect (version 1998). Table 2 indicates the future old-age dependency rate (here it means the population over 65 [instead of 60] divided by the population at the ages 16-64 [instead of 20-59]) of Romania and other transition countries using this United Nations' Prospect. According to this table, Romania will experience population ageing gradually from 2010 and the speed of ageing will be accelerated during 2030-2050. This corresponds to the forecast about the population of old and working generations ((c) above).

Any designer of pension reform in transition countries could not make its policy without considering the quickly ageing population. For Romanians, however, it is also necessary to take into consideration a special condition of Romania, that is, the demographic legacy of Ceausescu. In November 1966 Ceausescu suddenly initiated a pro-birth policy which caused the very high contingent fertility rate of 3.7 in 1967-68. The birth rate per 1000 habitants jumped from 14.3 in 1966 to 27.4 in 1967. The birth rate had been kept at a high level around 18.0-20.0 until the economic crisis in the 80s. Even in 1989 the rate was 16.0 which can be considered still high by the international standard. From 1990 on, however, the birth rate has decreased continuously and it reached 10.4 in 1999 (*ASR*, 2000, Table 2.2.1).

Figure 1 shows this "legacy" clearly. There is an apparent fault line between the age groups of 31 and 32. A person 31 years old on July 1 of 1999 was born after the initiation of Ceausescu's new policy. We can see one more line between 8 and 9. It indicates the anti-birth attitude of the people after the breakdown of the previous regime. Therefore we can call the age group of 9 to 31 on July 1 of 1999 as the "Ceausescu age". The "Ceausescu age" constitutes a bulk of the Romanian population and will begin to receive pensions after 2029 (women) and 2032 (men)[5].

On the contrary, the number of births since 1955 had been decreasing continuously until 1966, which also left a clear trace on Figure 1. This generation will enter pension age in 2015 (women)/2020 (men) and after. At that time the working generation born in 1967 and after will be still big enough to support the older generation. It seems to be an easing factor for the ageing problem of Romania pension reform. But it can be a trick for the policy makers in the long

Figure 1. Population by Age Group (on July 1, 1999)



Source) Made by the author using the data of *ASR*, 2000, Table 2.1.3

Table 3. Structure of Employment in Selected Transition Countries (% of Total Employment)

	Agriculture		Indutry[1]		Manufacturing[1]		Construction		Services	
	1989	1999	1989	1999	1992	1999	1989	1999	1989	1999
Bulgaria	18.6	26.2	37.7	26.5	ND	ND	8.3	4.1	35.4	43.2
Czech Republic	11.6	5.5	39.1	32.8	32.1	29.6	7.3	8.2	42.0	53.6
Hungary	18.3	7.5	30.0	28.0	25.8	24.7	7.0	6.2	44.7	58.3
Poland	26.8	25.2	29.0	23.4	21.0	19.7	7.8	6.1	36.4	45.3
Latvia	17.1	17.6	28.6	18.4	23.9	16.4	9.8	6.0	44.4	57.9
Romania	27.9	38.1	37.9	26.3	27.4	23.3	7.0	4.4	27.1	31.2

Note) [1]="Industry" is a larger category than "Manufacturing". The former includes the latter in it.
Source) The UN, ECE, *Economic Survey of Europe*, No. 1, 2000, p. 106.

run[6].

The demographic trend explained above indicates that Romania is not a young country like Albania but a quickly maturing country with complicated age structure inherited from Ceausescu's policy. It means that the ratio of the number of contributors to that of beneficiaries in the pension system will change irregularly in the next 50 years and that a simple combination of PAYG and DB cannot be maintained in the future. Nevertheless, the funded system with DC [Defined Contribution plan] is not necessarily the rescue for the pension crisis of Romania. Especially the feasibility of the funded system must be verified by an estimate of the people's saving behavior in Romania.

2. 2 Employment

Table 3 shows the change of the employment structure in several transition countries in 1989 and 1999. Here again the unique status of Romania is apparent. In Romania from 1989 through 1999 employment share of agriculture jumped up by more than 10 percentage points although the employment share of agriculture decreased in the Czech Republic, Hungary and Poland. On the contrary, employment in industry decreased considerably in Romania whereas there was observed slighter decrease of employment in industry in the Czech Republic, Hungary and Poland. Thirdly it is true that the employment share of the services increased in every country under review, but the increase of the share of service sector in Romania was the smallest.

Bulgaria is the only country in the table whose structure is similar to that of Romania. But the increase of employment in agriculture in Bulgaria was smaller and the increase of employment in service in Bulgaria was larger than in Romania. All these things suggest an important role of Romanian agriculture as a shock absorber of labor problems in the transition period.

The role played by agriculture seems to be a favorable precondition for social stabilization of Romania in the short run. In the long run, however, this would be a grave social burden because the previous pension system for farmers in Romania was destroyefter 1989. Until the end of the Ceausescu era most farmers in Romania were organized in agricultural production cooperatives and they had their own mandatory pension scheme. It was not long before the system went into a serious financial crisis since the destruction of agricultural cooperatives after 1989. In 1992 a new law was issued to make an optional pension scheme of PAYG type. It, however, could not function well. Firstly, the number of the farmers who subscribed to the new pension scheme was very small (2.5-2.6% of total number of farmers in June 1997). Thus, the contribution to the new pension fund has been too small to cover the system. Secondly the number of pensioners retired from agricultural activities has increased remarkably since 1990. Therefore

Table 4. Registered Unemployment in Selected Transition Countries (% of labor force, end-of-period)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania	9.5	9.2	27.0	22.0	18.0	12.9	12.3	14.9	17.6	—
Bulgaria	1.8	11.1	15.3	16.4	12.8	11.1	12.5	13.7	12.2	16.0
Czech Republic	0.7	4.1	2.6	3.5	3.2	2.9	3.5	5.2	7.5	9.4
Hungary	1.7	7.4	12.3	12.1	10.9	10.4	10.5	10.4	9.1	9.6
Poland	6.5	12.2	14.3	16.4	16.0	14.9	13.2	10.3	10.4	13.0
Latvia	—		2.3	5.8	6.5	6.6	7.2	6.7	9.2	9.1
Romania	1.3	3.0	8.2	10.4	10.9	9.5	6.6	8.8	10.3	11.5

Source) The UN, ECE, *Economic Survey of Europe*, No. 1, 2000, p. 230.

Table 5. Number of Inactive Working Age Persons in Romania

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Population at Ages 20-59[1]	12,225,665	12,261,908	11,968,143	11,981,470	12,037,202	12,112,010	12,167,337	12,234,362	12,303,316	12,376,639
Total Employed[2]	10,840,000	10,786,000	10,458,000	10,062,000	10,011,000	9,493,000	9,379,000	9,023,000	8,813,000	8,420,000
Number of Inactive Working Age Persons[3]	1,385,665	1,475,908	1,510,143	1,919,470	2,026,202	2,619,010	2,788,337	3,211,362	3,490,316	3,956,639

Note) [1]=On July 1 of every year, [2]=On Dec. 31 of every year, [3]="Population at Ages 20-59" minus "Total Employed".
Source) *ASR*, 2000, Table 2.1.3, Table 3.1.1.

Table 6. Number of Inactive Working Age Persons[1] in Central Europe (in thousands)

	1989	1990	1991	1992	1993	1994	1995	1996
Hungary	841	723	839	1257	1629	1797	1898	1966
Poland	2464	3755	4754	5484	5944	5937	5831	5724
Czech Republic	53	79	394	569	709	753	707	754

Note) [1]=See Note 3 of Table 5.
Source) Schrooten, Smeeding and Wagner, 1999, p. 281.

the real receipt of agricultural pensions was much smaller than that of industrial pensions (Grigorescu, 1998, pp. 10-12). The average monthly pension for "Pensioners of Social Security" (it does not include farmers) was Lei 1,338,851 and for "Pensioners of Agricultural Social Security" Lei 271,651 in 2001 (Magirescu, 2002, pp. 20-21). The increase of the share of agriculture in employment, therefore, means that a considerable number of Romanian people is now under vulnerable social assistance.

Table 4 shows the unemployment rate of transition countries. From the viewpoint of pension reform, the unemployment rate is significant in the sense that unemployed people do not contribute to a pension fund nor pay taxes to support a pension system in general. Therefore the unemployment rate of Romania in Table 4 suggests that the unemployment in the country has had an unfavorable effect on the pension budget.

In this relation more important is the number of people who are inactive or not working officially by any reasons which includes not only unemployed people but also students, housewives, injured persons and others. Table 5 indicates the number of inactive working age persons. As the data of the second line include people under 19 and over 60, the figure of "inactive working age persons" as a difference between the first line and the second line is not meaningful as rigorously scientific data[7]. But the trend of the data in ten years is meaningful enough to take note. "The number of inactive working age persons" of Romania has tripled since 1990. It means that the number of the people who did not contribute or only slightly contributed to the pension system has increased tremendously since the collapse of the previous regime[8]. Here we must pay attention to the fact that a considerable part of the "inactive working age persons" are working in an informal way out of governmental surveillance. But it is not a peculiar feature of Romania among the transition countries. Table 6 shows that the three Central European countries had suffered from the same problem, although their problem is not so severe as that of Romania. Romania is unique in the sense that the "inactive working age persons' problem" is connected with the increasing employment

Table 7. Social Security Fiscal Balance[1] (% of GDP)

		1994	1995	1996
Hungary	Overall balance	−1.3	−0.74	−0.97
	Balance for Old-age, invalidity and survivors' program	−1.58	−1.31	−1.33
Czech Republic	Overall balance	-0.28	4.15	3.32
	Balance for Old-age, invalidity and survivors' program	0.55	0.92	1.32
Bulgaria	Overall balance	−2.76	−1.39	−0.65
	Balance for Old-age, invalidity and survivors' program	—	—	—
Romania	Overall balance	−3.88	−4.81	−4.06
	Balance for Old-age, invalidity and survivors' program	2.41	2.2	1.67

Notes) [1]=The items are calculated by the following method.
"Balance"="Receipt"-"Expenditure".
"Receipt" consists of "Social contribution for social protection programs". and other tax.
"Expenditure" includes "Social protection benefits payments" and other costs including
"Administrative cost".
"Social protection benefits" except "Old-age, Survivors' and Invalidity benefits" are benefits for "Employment injury",
"Sickness and health", "Family", "Unemployment", "Housing" and others.
Source) The ILO, *International Inquiry into the Cost of Social Security 1994-1996* [Webpage of the ILO, http://www.ilo.org/public/english/protection/socsec/publ/css/].

Table 8. Replacement Rate of Pension in Selected Transition Countries[1]

	1989	1990	1991	1992	1993	1994	1995	1996
Hungary	63.3	63.8	64.0	60.8	57.4	54.8	57.9	56.7
Poland	53.3	65.0	76.1	72.5	72.8	74.8	74.5	72.5
Czech Republic	63.8	65.2	70.4	67.7	60.5	57.2	56.6	56.0
Romania	46.7	44.7	45.1	43.6	45.2	42.6	40.8	38.6

Note) [1]="Replacement rate" means average pension in % of average wage.
Source) Hungary, Poland, the Czech Republic : Schrooten, Smeeding and Wagner, 1999, p. 282.
Romania : Grigorescu, 1999, p. 25.

in agriculture. This phenomenon can be called naturalization and in-formalization of the economy. These are undercurrent basic conditions for Romanian pension reform.

2. 3 Fiscal deficit and inflation

Table 7 shows the financial aspects of social security of the four transition countries using the data of the ILO research project[9]. Here the overall balance of the Czech Republic and that of Romania form a striking contrast. Romanian data recorded a considerable amount of overall deficit on the social security program, whereas the Czech Republic has gained a fiscal surplus. Katharina Mueller asserts that a fiscal deficit of pension systems in Hungary and Poland led to their radical reforms of Latin American type and that fiscal surplus in the Czech Republic led to its moderate reform (Mueller, 1999). Along with this line of thinking, we would expect Romanian pension reform to be a radical one. But the reality is more complicated.

The point is that Romania kept a surplus in the fiscal balance of "old-age, invalidity and survivors' program" in appearance. This was caused by limited amount of benefits. At first we must note that benefits for survivors and invalidity benefits in Romania are much smaller than those of other transition countries[10]. The life of a jobless widow or invalid is miserable in Romania. According to Grigorescu's calculation, the percentage of invalids' and survivors' pensioners living under minimum standard were 95-100% (depends on the grade of invalidity) and 99.5% respectively in December 1998 (Grigorescu, 1999, p. 22). Secondly, the pension for old-age people in Romania was small if calculated as a percentage of GDP (ILO, 2000). Therefore we can conclude that the Romanian government kept the pension benefits at a very low level to attain the apparent surplus in the pension system balance though the overall fiscal balance of social security was in deficit[11].

The amount of a pension can be compared by statistics of "replacement rate". We adopt here the definition that the replacement rate is an average pension in percent of an average wage. Table 8 shows the replacement rates of several transition countries in this sense. It is clear that the replacement rate of Romania was very low under Ceausescu and that it has even declined under the new regime[12]. Compared with Romania, the governments of the three Central European countries have made some efforts to keep the living standard of their pensioners. Especially it is impressive that in Poland the replacement rate was raised by more than 10 percentage points in 1991, which can be attributed to the character of Solidarity's government.

It is widely accepted that the governments after Ceausescu had conducted very generous entry policy in the pension system and that it would have caused serious damage to the pension budget. How can we interpret the relation between this generous policy and the deterioration of the replacement rate? This problem is connected with poorly organized indexation of pensions under the circumstance of hyperinflation. So we must examine the inflation in Romania.

According to Table 9, the inflation rates of Bulgaria and Romania have been the highest in the table. Romania shows a peculiarity that it has never recorded a rate lower than 30% in any year since 1991. Especially Romania is unique in the sense that its inflation rate was still high in 1998 and 1999 when the inflation in other countries (including Bulgaria that introduced a "Currency Board System" in 1997) was stabilized. Naturally these things seriously affected

Table 9. Consumer Prices in Selected Transition Countries (Annual average, percentage change over preceding year)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Albania		35.5	193.1	85.0	21.5	8.0	12.7	33.1	20.1	−0.1
Bulgaria	23.8	338.5	91.3	72.9	96.2	62.1	123.1	1082.6	22.2	0.4
Czech Republic	9.9	56.7	11.1	20.8	10.0	9.1	8.9	8.4	10.6	2.1
Hungary	28.9	35.0	23.0	22.6	19.1	28.5	23.6	18.4	14.2	10.1
Poland	585.8	70.3	45.3	36.9	33.2	28.1	19.8	15.1	11.7	7.4
Latvia	10.9	172.2	951.2	109.1	35.7	25.0	17.7	8.5	4.7	2.4
Romania	5.1	170.2	210.7	256.2	137.1	32.2	38.8	154.9	59.3	45.9

Source) The UN, ECE, *Economic Survey of Europe*, 2000, No. 1, p. 231.

Table 10. Real Pension Index of Romania

	Average real pension of social security of state[1,2]	
	Total pension	Old-age pension with full service[3]
Oct. 1990	100.0	100.0
Dec. 1990	73.3	72.7
Dec. 1991	74.3	64.8
Dec. 1992	62.8	58.2
Dec. 1993	54.3	51.4
Dec. 1994	56.9	53.8
Dec. 1995	61.5	57.8
Dec. 1996	58.3	55.0
Dec. 1997	48.4	45.8
Dec. 1998	52.5	51.5
Mar. 1999	48.7	47.8

Notes) [1]=Nominal pension index/Consumer price index[level of both indices at Oct. 1990=100]
[2]=Consumer price index used here is different from the index in Table 12.
[3]=Without supplementary pension

Source) Calculated by the author from the data of Grigorescu, 1999, p. 12.

the process of pension reform in Romania.

Table 10 shows that the real state pension of Romania has been decreasing continuously. It means that the rise of nominal pension could not catch up with the speed of inflation though some efforts to adjust the relation between pension and prices have been made by the government. Concerning the measures of this re-adjustment it is worth noting that the decrease of real pensions was compensated by the method of lump-sum payment in the first years of the transition. For example, in July 1996 after the increase of the prices of energy, fuel and bread, compensation for most pensioners was made with payment in lump sum of 8000 lei (Governmental Decision No. 543/1996). Such measures produced a curious result, that is, equalization of earnings of pensioners. Although the equalization seems to have a good stabilizing effect in a society, it would damage people's belief in the public pension system by weakening the relation between contribution and benefit.

Romania has been suffering from an unstable macro economic situation of inflation until recently whereas other transition countries had got out of such problems. Therefore the Romanian government could not do anything but cope with current problems of the system.

3. Recent Reform Efforts

3.1 Establishment of "Pillar 1"

Since the breakdown of Ceausescu's regime, any thorough pension reform had not been conducted until the beginning of 2000. In March 2000, the law named "On the Public System of Pension and other Social Security Benefits" (No. 19/2000) was issued[13]. It prescribes the general social security framework of the country and detailed regulations for state mandatory pension. The latter is a PAYG type pension and has the following characteristics. Firstly the coverage of the people under the unified state pension is extended. The new pension covers the employees, other categories of employed people, public servants, elected or appointed persons working in public institutions, people working in individual farms, independent workers, unemployed people, etc. Secondly the law plans to raise the standard pension-age from 57/62 to 60/65 [for women/men] gradually in 13 years. Thirdly, unlike the past scheme, the employees pay one third of the contribution, while employers pay two thirds. The amount of the contribution is calculated on the basis of the insured person's monthly individual gross wage adjusted by the ANGW [average national gross wage]. In the first year of implementation of the law (2001), the contribution rate (contribution per wage) was set 23.33% for employer and 11.67% for employee in case of normal working conditions. The contribution is, however, differentiated by the special working conditions of the insured. Fourthly, the pension to be paid is calculated on the basis of the whole active life of a pensioner, transferred into points, where the connection between contribution and benefit at the individual level is not clear.

Most of these characteristics are common to the trend in the European transition countries. The extension of coverage of an ordinal pension system and inclusion of the wide range of the people in a unified pension system are in accordance with the trend of other countries. To raise the standard pension age is, also, a common trend in the European transition countries (Fultz and Ruck, 2001, p. 13). As for the problem of the ambiguous connection between contribution and benefit, Romania's reform is similar to that of Hungary or the Czech Republic but is different from that of Poland, where the strict connection is to be maintained by the NDC in Pillar 1 (Marossy, 2001, pp. 188-189). The contribution rate of the Romanian pension is rather higher than that of other transition countries[14], which can be estimated as an obstacle to the development of the system. What is more important is the fact that employer's contribution is bigger than employee's in Romania, whereas employer's contribution is smaller than, or at least the same as, employee's in Poland and the Czech Republic. In this connection Hungary's system is similar to Romania's.

What makes Romania different from Hungary lies

Table 11. Pension Contribution Rates Around 2000 (%)

	Contributor		Hungary	Poland	Czech Republic	Romania
Pillar 1	Employer		22	16.26	6.5	23.33
	Employee	Pillar 2 fund member	2	8.96		
		Non-member	8	16.26	19.5	11.67
Pilar 2	Employer		0	0		
	Employee	Pillar 2 fund member	6	7.3		
		Non-member				
	Total		30	32.52	26	35

Note) All the figures include payment for disabilty pension.

Sources) Marossy, 2001, p. 188 (considering the note 1 on p. 200); Fultz & Ruck, 2001, p. 14.

Table 12. Comparison of Pillar 1 Reform

	Czech Republic	Hungary	Poland	Romania
Coverage	Enlarged and unified	Enlarged and unified	Enlarged and unified	Enlarged and unified
Pension entrance age	Raised	Raised	Raised	Raised
Amount of contribution	Employer<Employee	Employer>Employee	Employer=Employee	Employer>Employee
Connection between contribution and benefit	Ambiguous (DB)	Ambiguous (DB)	Clear (NDC)	Ambiguous (DB)
Pillar 2 introduction	No	Yes	Yes	No

in the fact that Hungary started its pension reform both in the sphere of Pillar 1 and Pillar 2 at the same time. In Romania the establishment of Pillar 2 was delayed and has not been finished. Therefore Pillar 1 in Romania, a larger part of which is to be contributed by employers, will be the only official system of supporting old-age people for the time being. In this regard Romania is also different from Poland where the new Pillar 1 started at the same time with the introduction of Pillar 2 (Marossy, 2001, p. 185). The characteristics of Pillar 1 reform in Romania are summarized in Table 12.

3. 2 Controversies and problems after the adoption of the Law No. 19/2000

The law, although incomplete, provided a strong support to the implementation of a more equitable modern system of social protection. It also paved the way for funded pensions. However, some controversies occurred and problems appeared soon after the adoption of the law. Among others the following are important enough to note.

Firstly the burden on employees and employers in the system proved to be too heavy. The taxes and charges to be paid by the employees for insurance and social assistance (including pension, sick leave and other social benefits) are levied at the source, and the employer is obligated to deduct them from the employees' gross income and transfer them to the funds (Art. 28). Their size amounted in 2002 to about 58 percent of the gross wage (excluding tax on wages) of which 20 percent was paid by the employee and 38 percent by the employer. Initially the law stipulated that the employers' failure to pay their obligations would make penalties against the employees, *i.e.* the failed amounts are not to be considered in the determination of the pension rights (Art. 31 (5), Art. 33). Although such constraint was eliminated under the trade unions' pressure, too heavy a burden both on employees and employers is still a serious problem in an economically stagnated country like Romania.

Secondly the aim to build a unified system was not realized. The system was set up for all categories of pensioners, but later the army, the judges and the lawyers left the system and created their own systems. Thus, people having the same education and training and complying with the same retirement criteria receive different pension amounts due to the mere fact that they worked with the Ministry of Defense or as judges, etc.

Thirdly, the value of the pension point, i.e. the rate of replacement rate became a disputable problem. It was a hot issue among the social partners, the government and the civil society as a whole. Initially the parliament adopted a rate of "at least 45 percent" of the monthly gross average wage at the economy level as estimated by the National Institute of Statistics. The Isarescu cabinet placed the limit "at the most 45 percent" which deeply disappointed the trade unions, especially because of the risk of "free falling" of the point to unacceptable values hardly bearable by the society. The Nastase Cabinet initially raised the maximum ceiling to 50 percent and then, under the trade unions' pressure, considered the possibility to fix the annual point value between 30 and 50 percent of the gross average wage (*AE*, No. 24, 2001, p. 5). Even under such conditions, the ceiling is under the replacement rate of the former regime that had ranged from 54 to 85 percent[15].

Fourthly, the recalculation of the pensions already being paid according to the previous legislation became a matter of concern. The law provides that such pensions have to be recalculated by the new formula (Art. 180) in order to ensure equitable conditions for all pensioners. Moreover, since in the former regime the difference in wages was minor and just under the average, the Law No. 19 provided also the readjustment of the pensions to ensure equitable conditions for persons who are equal in the retirement conditions but retired in different years. Actually, the pension recalculation did not take place. The Emergent Ordinance of the government No. 49/2001 (issued in May) abrogated the related provision (Art. 180)[16]. The calculation of all pensions in payment according to the new methodology was given up, which meant the non-observance of the principle of equal treatment in setting the pension amount. To "correct" such inequities the pensions were to be "re-adjusted" later on.

3.3 "Recorelarea" [re-establishment of correlation] of pension: a means to diminish inequities

The effects of Governmental Decision No. 565/1996 concerning the pension calculation formula (Grigorescu, 1999, p. 47), associated with the indexation policy (especially the early 1990's policy focused on the increase in the small and very small pensions) have caused and worsened intra-generation and inter-generation inequities (*AE*, No. 17, 2001, p. 21). It would have broken the connection between contribution and benefit and weakened the belief of the people in the pension system. Therefore the overall indexation of pensions with the same percentage for all the categories of pensioners was introduced in October 1996, December 1998 and March 1999. These readjustment measures are called "recorelarea" [re-establishment of correlation] in Romanian. They, however, generated another serious problem that pension earnings are different according to the timing of retirement (Grigorescu, 1999, pp. 28-29, pp. 45-561).

Moreover, the introduction of the new pension calculation formula (*Art. 168* of the Law No. 19/2000) and the non-application of Art. 180 concerning the pension recalculation have caused larger imbalance between the pensions in payment before 1st of April 2001 and those in payment after that time. The authorities had to respond to such developments by a new "recorelarea".

The Government's Program for 2001-2004 (Government of Romania, 2000; Governmental Decision No. 332/2000) provides for the elimination of the pension inequalities among different generations through a program of "recorelarea" for three years up to 2004 (in six stages). The pension's correlation is to be achieved by increasing points.

The number of added points will be the same for all pensioners retired in the same year, but different for the pensioners retired in different years (see Table 13). The contribution of the Social Insurance State Budget will amount to ROL [Romanian Lei] 29,000 billion, that is about 3.6 percent of Romania's GDP in 2000.

The beneficiaries of the adjustment were persons who began to receive pensions for age limit and full length of service or survivors' pension by 1st of January, 1999 and whose corrected annual average points were less than 3. So far, three adjustment stages have taken place[17].

The system diminished, but did not fully eliminate the unreasonable difference among pensions. Moreover, the pension leveling (downward "flattening") occurs due to a significant increase in the low pensions. Actually, the differences among pensioners of different retirement years become smaller, but new inequities occur in relation to the individual pensions of the same retirement year.

The confused problems occurred around the "recorelarea" reveals that the inflation in Romania has been unresolved problem until recently and that the influence of it over the people is more complicated than that of other transition countries.

3.4 Controversies over Pillar 2 and shift of the discussions

According to World Bank's framework, a mandatory PAYG type pension scheme (Pillar 1) is only a basic segment of the social old-age protection system. On the Pillar 1 basis, a mandatory, privately managed, funded type pension scheme (Pillar 2) must be established. In Romania the governments and politicians with the help of the World Bank specialists endeavored to work out a design of Pillar 2 especially after the change of the government in 1996. A draft law concerning Pillar 2 was submitted to the parliament in January 1999 (Menil & Sheshinski, 2001, p. 14), but the parliament had not passed the law and the Isarescu[18] government finally gave up full legislation on this problem and instead published the Government's Emergent Ordinance No. 230/2000 named "On the organization and operation of the universal pension funds" in November 2000.

The Pillar 2 planned by the Ordinance is a mandatory, privately organized, funded type pension scheme. Under this scheme, a "Universal Pension Fund" is established and administered by a civil private Pension Company (Art. 2(2)). Each Fund must have a minimum of 150,000 members (Art. 38 (4)). All the natural persons, who have the right and obligation to contribute the Public Pension System [Pillar 1] and who have at least twenty years until their normal retirement, shall become members of and contribute to a Fund of their own choice for the entire period of contribution to the Public Pension System (Art. 65(1)). A member's contribution to a Fund is 10% of the monthly gross individual wage, 5 % of which shall be paid by employees and 5% by employers on behalf of their employees (Art. 67(1)). Contributions paid to Funds shall be credited to individual accounts in respect of each Fund member (Art. 81). The assets of a Fund shall be invested in the following type of assets: (a) bank deposits in Romania, (b) bonds and securities issued by the Ministry of Finance and bonds issued by the National Bank of Romania, (c) bonds issued by local government organizations in Romania, (d) shares in a market regulated by National Security Commission of Romania, (e) bonds issued by commercial companies in Romania, (f) cash, (g) state bonds issued by foreign governments (not more than 20% of the assets) (Art. 107, Art. 108). When retired, a Fund member shall withdraw from a Fund and purchase an Annuity (for example, a single life annuity payable until the death of the annuitant) by using at least part of the amount standing to its account (Art. 88(a), Art. 91(1)(a)).

If we admit the general strategy of the World Bank, it seems to be normal to set up the funded pension system (Pillar 2) in Romania after the establishment of a reformed state pension system (Pillar 1). Notwithstanding, since the legal and institutional framework for the operation of the funds did not practically exist and there were many problems in the capital market in Romania, the Ordinance set a warming-up period of two years (from December 2000) when the Commission for Regulation and Supervision of the Pension organizations had to work out the necessary regulations. The government also promised "to take necessary action to clarify the problems confronting the Romanian capital market."

The Nastase government decided that the Ordinance must be discussed in the Parliament in an amended form, emphasizing the economic and, especially, social importance of the Ordinance. Although a few months were provided for revision of the Ordinance (by November 2001), the discussions bogged down on many controversial points (*AE*, No. 25, 2001, p. 17).

One of the main problems that were in dispute is how to finance the public pension (Pillar 1) budget. The public pension budget will go into deficit because the Ordinance plans to transfer 10% of the contributions of the public pension system to the new compulsory universal funds (Pillar 2). This is connected with the well-known problem of transition from PAYG to a funded system. In the transition period the active generation must pay contributions both for the current retired generation and the future retired generation, *i.e.* itself, if there is no mitigation measure.

The second controversial point is who can be the market operators [Pension companies] of the Universal Funds in Romania. In Romania, where the financial market is not so developed as in other countries and well-trained specialists cannot be found, it would be a difficult task to draw up appropriate selecting and licensing procedures and evaluate their capac-

Table 13. Recorelarea of Pension

Pensioners' category	Number of pensioners	Percentage added in:		
		2002	2003	2004
Pensioners for full seniority and age limit, with a score up to 1 point				
-for up to 0.6 point	18807	50	30	20
-over 0.6−0.75 point	558372	25	38	37
-over 0.75−0.85 point	448345	24	40	36
-over 0.85−1 point	441336	22	40	38
Persons receiving survivors' allowance, with a score up to 1 point				
-for up to 0.3 point	132385	50	40	10
-over 0.3−0.6 point	496213	30	40	30
-over 0.6−1 point	14547	24	40	36
Pensioners with a score over 1 point				
-over 1 point−2 points	482922	18	35	47
-over 2 points−3 points	2473	10	38	52

Surce) Legal provisions concerning the "Recorelarea".

ity to achieve the required performance to reduce the risk.

The role of the state in supervising the activity of the private funds is also a problem in dispute. On the one hand, the potential market operators [Pension companies] (mostly, insurance companies) rejected any strict control of the funds, while the trade unions favored control. The latter insisted that, at least in the beginning, a rigorous control by the state or the government's responsibility for that is necessary.

The attitude of the possible contributors and beneficiaries towards the system is also a difficult problem. As is explained above, Romanians are reacting to economic and social hardship by resorting to naturalization and in-formalization of everyday life. In such a country, people's confidence in the public system, even if it is run by a private organization, must be very weak[19].

The procedure of amending the Ordinance was debated for a long time in the Economic and Social Council, the specialized commissions of the Parliament, at roundtables attended by all institutions that could be possibly involved (representatives of the Ministry of Labor and Social Solidarity, National Pension and Social Insurance House, trade unions, organizations of the pensioners, etc.). Several alternatives were worked out, but they did not end in a coherent project to be accepted by the society as a whole and could not be submitted to the Parliament.

Meanwhile another problem entered the stage: Whether to continue the task of establishing mandatory Pillar 2 or to re-orient the strategy to optional Pillar 3.

On the one hand, the population in general and the younger work-force in particular were not properly informed and ready to accept a high-risk insurance system, providing uncertain benefits in the long term. The low wages and high and lasting inflation were not a supporting factor for such investments.

On the other hand, the retirement waves that had taken place before the implementation of the new system caused a higher financial pressure. The impact of the Pillar 1 reform on the budget deficit was more significant than expected. The financial balancing of the Pillar 1 and the need for preserving the employees' purchasing power make the optional funded pension system more attractive, though there are controversies on which alternative is more risky.

At present one may notice a shift in orientation of the government itself in building a funded pension system. The present idea is based on the following two components correlating each other:

——to carry on the Pillar 1 reform, the balancing of the fund budget, the clarification of the functional problems of the system, the diminution in/elimination of inequities, etc.

——to set up an additional insurance for the interested persons through optional funded pension schemes, based on private management.

Here it is important to note that the trade unions also accepted a complementary system based on an optional system of *occupational pensions*, *i.e.* the second component above. A draft law regarding the occupational schemes is expected to be discussed in the Parliament in 2003. Although there are controversies over the market operators, the support given by the social partners to the system, and the acceptance of the people in the system, the consensus regarding the reform continuation is observed in the country. The people know that the cost of any delay is too high to be ignored. Moreover, the pension reform is one of the targets of the *Acquis Communautaire* of the EU in the social insurance and assistance field. The policy shift of the government must be regarded in this regard.

3.5 Optional Occupational Pension Scheme (OOPS)

The improvement of the funded pension scheme should be based on the international practice, experience, and present trends in the field. However, the Swedish, Chili or German models, efficient as they are, cannot be taken up by Romania due to the very specific economic and social conditions, though they can be benchmarks for building the pension system. In this context, it is worth mentioning that Romania is reforming the pension system when Europe and the world are searching for solutions complementary and/or alternative to today's models.

In comparison with the plan depicted by Ordinance No. 230, the present proposals for *the optional occupational pension schemes* (OOPS) are different in the following main aspects[20].

Elimination of the compulsory provisions: The participation in the OOPS is optional and the access to the occupational pensions depends on contributions for at least five years. The participation in the OOPS, which is established by a proposal of an employer or a trade union, is restricted to its employees/members, former employees/members or their husbands/wives and those entitled to optional pensions after the death of a member. The participation in the OOPS may be achieved by the participation in setting up a pension organization or by the conclusion of contracts with OOPS suppliers.

Increasing involvement of the social partners: In the case of the Universal Pension Funds (UPF, Pillar 2 organization), the social partners had representatives appointed by the Consultative Committee under the Commission for the Regulation and Supervision of the Pension Organizations (having a consultative role in the organization and operation of the UPF) and took part in the management of the National Pension Guarantee Fund. In the case of OOPS, the employers and trade unions will involve themselves directly in the OOPS and may suggest OOPS in accordance with the provisions of the collective agreements concluded at the level of company, group of companies (multi-employer) or branch (sectorial agreements).

Private management by insurance companies: The management of pension funds is carried out not only by special pension companies as in the case of the UPF, but also by insurance companies. In both cases a commission is set up as an autonomous public institution to supervise fund's management with the help of a consultant having international experience.

President of the National Commission: The President of the National Commission for the Pension Fund[21] is not appointed by the President of Romania, as in the UPF case, but by the Prime Minister and voted on by the Parliament.

Minimum number of fund members: The provision concerning the minimum number of members for setting up a pension fund and the limitation of the contribution calculation basis are removed.

Amount of contribution: The contributions are no longer the same for all the participants and there is no central system of collections through the National Pension House. The contributions are individualized through the OOPS. The minimum contribution is set by the collective agreement.

The decision to add on Pillar 1: The decision concerning the additional contribution (above the compulsory level set by Pillar 1) is made by the social partners (for example, a board of directors and a trade union) and is stipulated in a collective agreement at company level. The collective application of Pillar 2 on the national economy as a whole is not financially possible because, on the one hand, the already poorly funded public system would collapse by giving up 10% of the contributions, and on the other hand, the tax increase to balance the budget is not acceptable in practice. It is well known that the present tax burden is too heavy in comparison with the supporting capability and tolerance of the economic system. In the alternative system based on occupational pensions, those who can afford a heavier tax burden will enter the system.

It is worth mentioning that, in both cases (UFP and OOPS), the funded system is supposed to set the minimum guaranteed pension. If the amount to be received as pension in accordance with the individual contribution is smaller than the amount set by the Commission, then a fixed amount will be granted. But if the account amount is larger than required for a minimum pension, only a part of the balance is to be paid as fixed amounts or installments for a maximum of 10 years.

3. 6 OOPS: Romanian version of pension reform ?

Compared with other transition countries, the characteristics of Romanian pension reform are the delay in introduction of a mandatory funded pension scheme (Pillar 2) and a proposal of optional occupational pension for alternatives. The delay of the funded scheme can be attributed to the political fluctuation. If Emil Constantinescu had won the presidential election in November 2000, the situation would have been changed. However, whether Pillar 2 could have been managed well under Constantinescu is a different problem because of the complicated structure of the stakeholders of the problem. Especially the IMF was indifferent to building the three pillar system recommended by the World Bank in Romania. It was anxious only about the fiscal deficit and there seemed to be a high possibility that the introduction of Pillar 2 over Pillar 1 in Romania would have made much fiscal deficit. The Constantinescu presidency, which would consent to the IMF induced policies in general, would disagree with it in the sphere of pension reform.

As for the occupational pension, it is worth noting that this pension scheme is spread all over the world, especially in the developed countries, and that the World Bank Report (World Bank, 1994) also refers to it. In the World Bank's framework, "occupational plans" are classified as one of three alternatives of "financing and managerial arrangements" of old-age security systems. The other two alternatives are "public PAYG plans" and "personal saving and annuity plans" (World Bank, 1994, pp. 8-9). The World Bank admits that either plan, occupational or personal saving, can be used in the mandatory privately managed funded pillar (Pillar 2). The voluntary pillar (Pillar 3) can also have a form of whichever plan, occupational or personal saving plan (World Bank, 1994, pp. 15-16).

Therefore the Romanian occupational pension scheme does not constitute Pillar 2 but Pillar 3 in the World Bank's framework because it is not mandatory but optional. It means that the Romanian pension reform has started from Pillar 1 and then is now going to Pillar 3 leaving the building of Pillar 2 unfinished. This sequencing of the reform is unique for Romania compared with the Czech Republic, Hungary and Poland.

As the structure of the planned occupational pension scheme in Romania is not clear until now, we cannot fully compare it with the American, British, French, German, Japanese or Swedish version of occupational pension. However, if we pay attention to the point that the Romanian occupational pension can be set up by a collective agreement at company level, it is not similar to French and Swedish versions which are set at every nation-wide occupational group, but similar to American, British, German and Japanese versions, which are set up independently by every company as a welfare service within a company (KNKRK, 1999, p. 459).

Here it is worth noting that the recent shift of the discussions in Romania was driven by the pressure from trade unions[22]. They are eager to secure their stake in the system building and it is affecting the process. This is also a unique character of Romanian pension reform[23]. How much can a trade union exercise its power in the management of occupational pension scheme in a company will be the most critical point of the system. Anyway, to build a healthy occupational pension scheme we need a grand and detailed law like *ERISA* in the USA. We must wait and see the law-making process in the future.

3.7 Limitations on the development of the funded pension system

The pension funds, irrespective of their form, might cause an increase in savings, development (and even revival) of the capital markets and diversification of the incomes of the retired persons. Such objectives, however, can be achieved only if they are supported by a functional and efficient market economy and a rigorous, transparent but flexible supervision and control system. Here we encounter a critical problem.

Some researchers insist that the introduction of a privately managed funded pension system will produce a modern efficient financial market even in a country like Romania (Menil & Sheshinski, 2001, pp. 95-97). Others think that such a pension system could not be introduced without a well-developed financial market. If we consider the behavioral characteristics of Romanians in economic life and the situation of the financial market in Romania, the latter thought is plausible in the near future.

Traditionally, the Romanians are very cautious and take reasonable risks and that is why they have relied on property and savings. The optional participation in the private pension systems rather causes a defensive and prospective attitude than a participative one until the first results occur. Generally, the Romanians base their idea of saving more on the principle of "white money for black days" and less on the orientation by objectives (pension, health care, children's financial support, etc.). The historical analysis of the share of the savings in all incomes of each person/household reveals that the low-income earners (that cannot bear the impact of the financial risks) and the elderly made major efforts to save. They save to support their family (parents save for children), for health care, possible accidents (as the present system cannot even provide the minimum decent services), etc. Their savings are based on sure, time-proven instruments (incomes from real estate, hard currency, gold or cultural values such as paintings, amounts managed and guaranteed by the Savings Bank, etc.).

Table 14. Share of Monetary Aggregates[1] in GDP of Selected Transition Countries (%)

	M1[2]				Total broad money[3]				Total credit[4]			
	1996	1997	1998	1999[5]	1996	1997	1998	1999[5]	1996	1997	1998	1999[5]
Bulgaria	7.4	6.5	10.2	11.5	44.4	23.9	27.9	29.3	34.5	17.4	16.3	17.2
Czech Republic	28.4	25.4	22.2	24.2	68.1	68.5	67.4	71.5	61.9	64.4	62.6	58.9
Hungary	15.2	14.7	15.2	15.6	36.4	35.6	40.3	40.7	22.9	24.2	24.6	26.2
Poland	10.9	13.9	13.5	14.4	33.5	41.2	43.5	47.9	17.2	20.4	22.9	25.8
Latvia	12.4	14.1	15.2	15.2	19.7	22.5	24.2	24.2	7.3	8.9	13.7	15.9
Romania	7.3	5.0	4.7	4.2	20.8	18.3	19.3	20.2	19.2	14.8	13.4	12.7

Notes) [1]=Averages of monthly or quarterly figures.
[2]=Currency in circulation plus deposits.
[3]=M 1 plus time deposits in domestic currency and foreign currency deposits.
[4]=Total outstanding claims on firms and households (except claims on government).
[5]=January-November for Poland ; GDP data for 1999 are based on the preliminary report by the national statistical office, or estimates.

Source) The UN, ECE, *Economic Survey of Europe*, No. 1, 2000, p. 50.

The bank savings, investment funds, portfolio securities are rarely used instruments due to the market instability and the painful experience in the last thirteen years (the bankruptcy of the Bank of Religions, of Transylvania Bank, of the FNI and SAFI Investment Funds).

The maturity of the financial market of a country can be estimated by the share of monetary aggregates in the GDP. Generally speaking, the more a country is advanced in economic development, the higher the share in the country becomes. The increase of the share is closely connected with so-called "financial deepening". According to Table 14, the financial deepening in Romania has not advanced so much as in other countries including Bulgaria. This suggests the immaturity of the Romanian financial market.

As for the immaturity of the Romanian financial market, we can find much institutional evidence. For example, privatization of banks is least developed in Romania among transition countries. In 1998 the assets share of state-owned banks in Romania was 74.6%, whereas it was 66% in Bulgaria, 18.8% in the Czech Republic, 11.8% in Hungary, 8.5% in Latvia, 48% in Poland (Schroeder, 2001, p.90). Concerning the security market infrastructure, no bonds were traded in Romania as of 1998 whereas some kind of bonds (including government bonds) markets including OTC markets are settled in Bulgaria, the Czech Republic, Hungary and Poland (Schroeder, 2001, pp. 114-115).

In such a situation, it would be too optimistic to think that the introduction of funded pensions will produce a modern financial market in Romania[24].

4. Concluding remarks

The process of pension reform in Romania has showed a different character than that of other European transition countries. Even the full reorganization of Pillar 1 was delayed and was not accomplished until March 2000. Pillar II has not been legislated until now and the discussions are shifting to build Pillar 3 as an occupational pension scheme. Can we attribute this delay of the process to the social democratic oriented governments from 1990 to 1996 and since 2000? Partly "Yes", because they relaxed the entry conditions of pensions too much after the breakdown of Ceausescu's regime and deteriorated the contribution-benefit structure of the Romanian pension system. They canceled, as a matter of fact, the legal document on Pillar 2 after they won the election of Nov. 2000 and shifted the course of the discussions under the pressure of trade unions. The liberal oriented governments from 1996 to 2000, however, cannot shirk their responsibility for the delay. They could not do anything but cope with the problems around Pillar 1 and they could not accomplish the legislation for Pillar 2 during four years in power. Anyway they could not conduct a radical policy to kill the inflation like the Bulgarian "currency board system".

We must pay more attention to the fundamental conditions of the Romanian economy. The poverty in Romania is severer than in Central European transition countries because of Ceausescu's legacy and the historically developed structure of the economy in the last century. Therefore the range of the problems that Pillar 1 must cover is wider and the structure of poverty of retired people is more complicated than the World Bank's framework anticipates.

The experience of Romanian pension reform arouses a problem of whether a funded pension scheme of any form is feasible in a country like Romania. Romania is a country where economic and social hardships are coped with naturalization and in-formalization of the economic life of the people. How to build a modern network of financial intermediaries in such a country is the crucial problem in order to set up a secure funded pension scheme.

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Notes

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3) After the triumph of the liberal oriented government in the election of Nov. 1996, the World Bank approved a US$50 million "Social Protection Adjustment Loan" which would help, among others, Romanian pension reforms (Press Release of the World Bank, New Release No. 97/1373 ECA [http://

www.worldbank.org/html/extdr/extme/1373.htm]).

4) The old-age dependency rate of Romania in 1985 was 27.5% and 33.6% in 1999 (*ASR*, 2000).

5) According to "the Law on the Public System of Pension" (No. 19/2000), the age limit for pensions will be raised from 62 to 65 (men) and from 57 to 62 (women) gradually during the period of 2001 to 2013 (men) and 2001 to 2021 (women) (Annex no. 3).

6) Menil and Sheshinski write "Ceausescu's promotion of population growth (abortion was outlawed in *1967*) did not, as might have been expected, result in an increase of the prime age population in the 1990's. Many of the additional young people born in the 1970's and 1980's appear either to have died or to have emigrated right after the fall of the regime" (Menil & Sheshinski, 2001, p. 99). Some parts of this explanation are clearly incorrect and at the least they overlook the long-term effects of Ceausescu's policy.

7) The significant figure is also different.

8) As for the number of pensioners, it increased by 45.5% between 1990 and 1996 in Romania (2,570 thousand to 3,740 thousand; social insurance pensioners excluding farmers). Menil and Sheshinski attributed this astonishing figure to "reformed communists' liberal use of advantages granted to special interest groups" (Menil & Sheshinski, 2001, pp. 69-70). Here the "reformed communists" mean the people in power headed by President Iliescu until 1996. Considering figures in other countries, the conditions to enter the pension seems to have been interpreted very "liberally" in Romania. In the same period the number of pensioners increased by 18.6% in Hungary, 29.5% in Poland, and 3.3% in the Czech Republic (Mueller, 1999, p. 64, p. 97, p. 130).

9) Data of Poland for 1994-1996 are missing from the data series of the ILO.

10) In 1996 expenditure for "survivors and invalids' benefits" was 1.14% of GDP in Romania, whereas 3.42% in Hungary and 2.5% in the Czech Republic (ILO, 2000). We must note that per capita GDP of Romania is much smaller than that of Hungary and the Czech Republic.

11) Other data sources indicate that the budget of state pension fell into deficit after the change of government in the end of 1996 (*ASR*, 2000, Table 17. 3).

12) The rate was 40.0% in 1997 and 36.2% in 1998 in Romania (Grigorescu, 1995, p. 25).

13) The law became effective one year after (April 1, 2001).

14) We must note that the average wage as a basis of the calculation is not a definite variable.

15) To that amount one should also add the additional pension (whose size for a 25-year contribution period accounted for 16 percent of the pension calculation basis) and a 0.5-1 percent increase for each working year after the retirement age.

16) The non-application of Article 180 was related to the technical problems of setting the point value for each pensioner. The specialists believe that the estimation of the "contribution history" could last several years.

17) As for 2002, see *AE*, No. 6, 2002, p. 14.

18) The former president of the Central Bank of Romania.

19) After the issue of the Ordinance a leading economic journal *Adevarul economic* published an article to explain about the "universal pension fund". It contains problems such as, "Who administrates a universal pension fund?", "How to constitute a universal pension fund?", "What is the task of the Commission of Regulation and Supervision of Pension companies?", "What kind of right and obligation do the contributors have?", "What kind of guarantee do Fund members have?" and so on. *AE*, No. 1, 2001, pp. 13-14.

20) The following explanation is based on the personal information of Romanian experts and official documents gained by the author.

21) The tasks of the National Commission for the pension fund (autonomous public institution) are: to protect the interests of the pension fund members; to ensure the prudential supervision of the pension organizations, pension funds, annuity suppliers and custodians; to inform the public on the pension fund market; to ensure the functioning of the pension fund system; to work out regulations concerning the activity of the entities that offer services to the funds.

22) Dumitru Costin, President of National Block of Trade Unions of Romania, declared, "the National Block of Trade Unions has been standing in opposition to the promotion of pension reform by introducing Pillar 2 as a form of mandatory contribution, individual account, and private administration". The NBTU proposed occupational pension scheme (*AE*, No. 15, 2002, pp. 10-11).

23) "It is interesting to note that, nowadays, unions in all three countries [Hungary, Poland, and the Czech Republic] seem to agree with the governments' reform plans, even when they are as radical as in Hungary and Poland", (Mueller, 1999, p. 173).

24) Hermann Ribhegge (1999) compares PAYG system with the Fully-Funded system in a theoretical perspective. It reads "There is little to be gained if the introduction of the FF system strengthens capital accumulation, while at the same time the government increases future taxation in line with its rising debt today" (p. 76). Especially he emphasizes, "The idea that the FF system has a positive effect on labor supply relies on a positive price elasticity of labor supply. Also, notional labor supply must equal effective labor supply. This last assumption does not seem

to be applicable to the countries of Eastern Europe, where high unemployment persists" (p. 74).

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