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Some Considerations of Population Dynamics and the Sustainability of Social Security System

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Abstract

Worldwide discussion on the sustainability of social security systems is an extremely topical issue, especially since, in the current socio-economic conditions, these systems are undergoing a sever crisis. Romania's current situation is characterized by a major transformation of economic structures, by decreasing demographics, by increase in participation rate of youth in higher education and most importantly by a high number of retirements and by migration. These aspects have generated a drastically decline of the labour force. In this picture, the increasing number of non-contributors within the active population represents a major social risk. The starting point of this research is represented by this true reality: in 1990, in Romania there were 8.1 million employees. In 2010, there were 4.7 million employees. In the meantime, starting from 1990, emigration increased considerably, and nowadays in the European Union only, there are about 2.7 million Romanian people (Eurostat). The analysis underlines the effects of this evolution on social security system.

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1. Introduction

Romania's social security system is based on employee's contributions while the pension system is completely dependent on the number of contributors. Under these circumstances, it is obvious that decreasing demographics affects the sustainability of the entire social security system. When population falls considerably, especially economically active population, the effects on the social security system are major. Ageing of population and

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pronounced migration have an impact on social security system funding because of the decline in the number of contributors. Working-age population (paying contributions to social security funds) declines because of migration, thus stressing the imbalance of the social security system and thus generating, for instance, significant tax growth. The decline in economically active workers (because of ageing and migration) represents the major problem of the sustainability of social security systems (Rubenstein, 2011). Romania is not the only country in this situation. A research carried out by the International Monetary Fund estimated that the ratio between pensioners and active population could halve in Europe by 2050, from four to two active workers for each pensioner. In 2006, a report drafted by the European Commission estimated that EU labour force would fall by 48 million people, that is by 16%, between 2010 and 2050, while the number of elderly people would go up by 77%, that is by 58 million people. Current demographic structure of most OECD countries is characterized by relatively numerous cohorts, born after the end of WWII (1946-1964, baby-boom generation), ageing but still active population.

2. Population Dynamic 1990 - 2010

In the early 1990s, Romania's active population pointed to a slightly upward evolution, culminating with 11.387 million active workers, registered in 1992, being the highest level up to this day. After a period of two-year stagnation, the active population registered an accelerated decline and, in just a couple of years (1995 and 1996), it fell by almost 1.2 million active workers (National Statistic Institute, 2010). The rate of decline diminished starting from 1997, so that, in 2009, 9.12 million active workers were registered, as we can see in the figure 1.

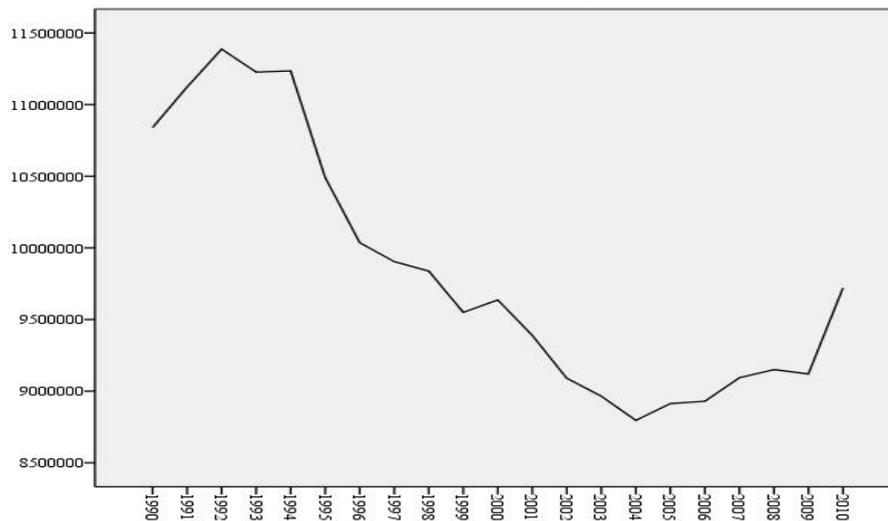


Fig. 1. The evolution of the active population in Romania 1990 - 2010.

At the same time, employed population declined between 1990- 2010. However it should be noted that employed population isn't the best indicator to characterize labour force. There isn't always a direct connection between the volume of goods and services produced and employed population. However, taking into consideration the specificity of the Romanian social security system and especially of the Romanian pension system which functions a PAYG basis, the volume of employed population pays an essential role in ensuring its sustainability. Analyzing the volume of active population, a downward trend points out up to 2004, mainly because of the decline in number of employees, as a result of the economic downsizing and closing companies. After 2005, a slight increase of employed population is noted. In 2010, there were 8.59 million employed persons (figure 2).

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