PENSION PRIVATIZATION IN ROMANIA: THE CONTEXT OF CENTRAL AND EASTERN EUROPEAN REFORMS. INTERNAL AND EXTERNAL INFLUENCES

PhD Student: BARBU CLAUDIU
PhD Coordinator: Univ. Prof. Dr. LIVIA POPESCU

2018

The present research highlights the role the governments of the countries from Eastern Europe played in the privatization of pension systems in this region. The study also underlines the influence of internal factors and the International Financial Institutions on the pension reform process. The study also addresses the problem of East-European political parties' positions regarding the diffuse and concentrated costs of pension reform, with an emphasis on the influence of the political factor on the pension reform process in Romania.

The second chapter presents the economic and political context in which the procedures aimed to reform the pension systems in Eastern Europe where initiated and implemented. In Eastern Europe, the social protection systems were influenced, in early 1990s, by the principles of planned economy. The transition to the market economy has affected the functioning of these social protection systems. The first problem generated by the transition process was the rapid growing of unemployment. This consequently decreased the collection base for the social insurance budget and increased the dependency ratios of pension systems all over the Eastern Europe. Also, in the context of the new economic realities, the implicit component of the social protection systems - financed through revenue redistribution mechanisms introduced in the planned economy - could not be sustained. This increased the pressure on the explicit component of the social protection systems. At the same time, the process aimed to transform the modern "European" state into a new post-modern type of society - characterized by neoliberal values and impregnated with the interests on national and international capital - was taking place in the Eastern Europe. The new paradigm (the individualization of the social) provided the state with a less visible role in legislating on social rights and for the enforcement of these rights. Also, the state's responsibilities in financing social policies and delivering services were limited. Financing the social policies remained a state function as long as "quasi-market" was accepted as a solution in this area. The services delivery in the social protection field "shifted to families, to voluntary or NGO sector and ultimately to the market" (Ferge, 1997). The market became the main actor in society, and its operating rules took over not only the economic activities, but also other areas of society. This created a competition between the target groups of social services, creating a competition between them (a competition to the one existing on the free market between suppliers). Selectivity became the main way of access to the social policies outcome. In the transition countries from Eastern Europe, there was a higher degree of compliance with the new ideology than in Western Europe.

The third chapter analyzes the evolution of the pension systems reform in Eastern Europe, chronologically incorporating the measures taken by the governments in this area over four major timelines: the status-quo in the early 1990s; then the period between the publication of the "Averting the old age crisis" study by the World Bank and the mid 2000s; the years of the Financial Crisis represent the next period, and the last one is the contemporary one. The focus of this chapter is on the parameters of pension systems in most Eastern European countries, and on their evolution after the reforms come into force.

The fourth chapter analyzes on the impact of pension privatization on the risk of poverty and on the income inequalities among the elderly. The main focus is on the distributional effects of shifts from public to private pension provision on countries where the second pillar (the mandatory private one) reached the maturity age. Schirle (2009) found for Canada that a larger private share in the pension provision is associated with an increasing income inequality among elderly people, and Blackburn (2008) found a similar effect for the USA. In a cross-national study, Smeeding and Williamson (2001) found that high levels of public special spending are associated with low levels of income inequality and poverty. Based on an international comparative analysis, Goudswaard and Caminada (2010) concluded that the redistributive effect of private social security is smaller than that of public social security. However, the trans-national longitudinal study of van Vliet, Been, Caminada and Goudswaard (2011) had different results than the findings presented earlier, failing to find empirical evidences that shifts from public to private pension provision lead to higher levels of income inequality or poverty among elderly people. In Belgium for, instance, the country with the largest relative shift from public to private pension provision, inequality and poverty among elderly decreased. In Italy, the country with the largest relative shift from private to public, the researchers observed an increase in income inequality and poverty rates among the elderly.

In the fifth chapter, dedicated to the theoretical framework, the existing explanations of pension reform are reviewed, with a focus on the kind of information used by policy makers in their decisions to adopt measures like pension privatization. With regard to the external influence, the external pressure framework is presented and explained, as well as the theory of policy diffusion (Weyland, 2005). In terms of internal influence, variables from demographic, economic and political structure of Eastern European countries are presented and described as factors influencing pension privatization in this region. Also, in this chapter I present a two dimensional framework of pension politics for analyzing the formation of pro-reform and anti-reform coalitions (Armeanu, 2010 a) in every political party system in Eastern Europe.

The sixth chapter is dedicated to the first research objective, namely highlighting the factors influencing pension privatization in Eastern Europe. To test the theoretical frameworks that seek to explain this type of reform, I rely on quantitative research to reveal general cross-national trends. Event history model with time-varying covariates reveals that a country is more likely to implement a private pension reform if the old age dependency ratio increases. With regard to the external influence, the same quantitative methodology (event history model with time-varying covariates) reveals the probability of a decision to adopt a pension reform like privatization in one country increases systematically as the proportion of peer nations that have adopted similar measures rises.

The seventh chapter is dedicated to the to the second research objective. Here, I present the evolution of the pension reform process in Romania, with an emphasis on how political parties influenced this process. The chapter presents the empirical testing of the hypothesized political parties' behavior (Armeanu, 2010 b) in a bi-dimensional space generated by the diffuse and concentrated costs of pension reform. In order to find out in greater depth how external and internal factors influenced the pension privatization in Romania, I interviewed two of the actors involved in the reform process: Marian Sârbu - former Minister of Labor in Romania, between 2000 and 2003 and Smaranda Dobrescu - the chairman of The Labor and Social Protection Committee of the Chamber of Deputies (2000 - 2004), the initiator and the main promoter of the law that implemented the mandatory private pillar of the Romanian pension system.

Regarding the generalizability of findings, the study provides ample material for future research. The theoretical expectations presented in this thesis can be tested in a variety of regions. Also, in the models aimed to predict the decision to reform the pension system, any researcher can include other variables from the economic, political or demographic environment, using however, the same quantitative methodology for testing the competing perspectives on privatization. The interviews with Smaranda Dobrescu and Marian Sârbu offers a model for similar qualitative approaches regarding the pension reform process in other countries from Eastern Europe or elsewhere.

The second part of the research deals with the Romanian pension system reform, with a focus on the role of political parties in this process. This research relates the configuration of the

Romanian party system to pension reform outcomes and sustainability, focusing on the formation of pro-reform and anti-reform coalitions. The conclusions of this research are important for social policy implementation process in general, and for pension privatization in particular. Pension reform involves three trade-offs that must be acknowledged by the political parties (Armeanu, 2010 b): between achieving one's policy ideal and building a consensus; between policy and votes, and between the content of the reform and its sustainability (on the long term).

Lowi (1964) classifies public policies into three main categories: regulatory, distributive and re-distributive policies. The present research (more specific, the methodology of the present research) can be used to highlight the internal and external factors influencing the decision to implement a certain social policy, and also the political parties' positions regarding the outcome of that social policy. Latter comparisons can be made between the variables influencing the implementation of each type of public policy in Lowi classification or between the political parties positions regarding the outcome of each type of public policy (in Lowi classification).

The analysis of pension reform in Eastern Europe is also of particular importance for the portability of social security benefits. This is a European Union directive according to which any worker can preserve the actuarial value of accrued pension rights when moving from one country to another (Forteza, 2008). Therefore, a comparison between European pension systems is needed, both in terms of entitlements and regulatory framework.

Keywords: pension reform, pension privatization, diffusion wave, external pressure, event history model, Cox regression, W-NOMINATE, Ideal Points Estimation, diffuse costs, concentrated costs, dependency ratio, effective number of parties, syndical density, Romanian pension reform