

## DEMOGRAPHIC CHALLENGES AND NEEDED POLICIES

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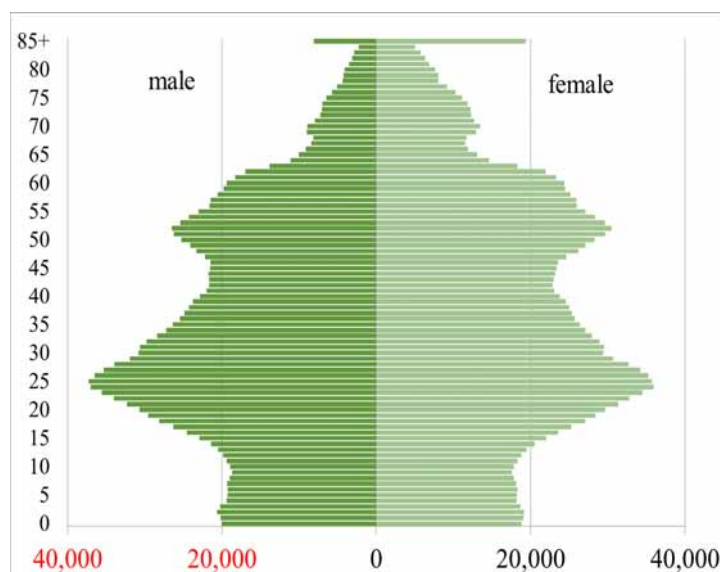
Demographic policy is a part of state social policy and includes a number of legal, economic, organizational measures which are interrelated and which aim at changing the demographic behavior of the population. At the same time population reproduction is determined by the socio-economic situation of the country, economic and social policy of the state. The nature of the relationship *economy – population* is quite complex characterized by a close existential connection. The concept "*population and development*", which came into scientific and sociopolitical circulation recently, emphasizes the primary role of population for the existence of society itself, whose economic role is reflected by the fact that it is a primary factor of production supporting and represents the recipient and consumer of the results of any economic activity. On the other hand, satisfying human needs, and thus those of the population, is the general ultimate purpose of socio-economic activities, while the production and distribution of goods is only a practical way to ensure what is needed to achieve the stated purpose. The overall population on the one hand and the active and employed population on the other hand, are the bases of the relationship between the ultimate goal of production and the means used to achieve it. Thus, for the socio-economic development, population is an important endogenous (internal) factor, which in turn is determined by the socio-economic processes. The double identity of the population in the system of relations *economy – population*, constitutes a strong argument in favor of demographic factor appreciation as an endogenous variable for growth and economic development, all policies of European states being combined with demographic changes.

Currently, the need to promote demographic policies is recognized in all countries of the world, regardless of the demographic situation and population growth rates. The most important population policies were determined for the upcoming decades during the regional conference organized by the United Nations Population Fund (UNFPA) and the UNECE between the 1st – 2nd July 2013 (Geneva, Switzerland) on the continuity of the Programme of Action of the International Conference on Population and Development (ICPD, Cairo, 1994) based on the overall assessment of demographic trends in long term and on priority policies in all 56 states of the UNECE area, including Moldova. One of the most important conclusions of the conference, confirmed by the results of scientific research, was the recognition that *a society can achieve socio-economic prosperity under low population growth rates, or even in its absence*<sup>1</sup>. Population size doesn't matter, its qualitative characteristics matter. The continuous increase of life expectancy and the proportion of elderly people in the overall population size emphasize the need to put at use their human potential, especially those who possess a high degree of education and professional experience can essentially contribute to the development of society if such opportunities could be provided.

Despite common demographic trends in European countries, there is also a national peculiarity of the Republic of Moldova which determines the need to develop and implement policies that would combine with regional principles and priorities (investment in human capital, continuous gender equality promotion, continuous qualitative education during the lifetime and access to healthcare, reproductive and sexual health) and would focus on sectors that affect the qualitative and quantitative development of the population, constitutes an impediment for the socio-economic development of the country.

<sup>1</sup> UNECE. Regional Report: ICPD Beyond 2014, p.55.

<http://www.Unece.Org/Population/Paupubwelcome/Ageing/2013/Regionalnyi-Doklad-Eehk-Oon-Mknr-Posle-2014-Goda/Docs.html>



**Figure 1. Age-sex pyramid for Moldova, stable population, 2013**

*Source:* NBS.

Currently, the demographic situation in Moldova is determined by the dynamics of demographic processes (birth rate, death rate, migration) and by the structure of the population, it is characterized by negative changes in the general population reproduction, being officially recognized as a demographic decline<sup>1</sup> which is a hidden sign of latent demographic crisis.

Age and sex pyramid of Moldova was influenced by the increase of mortality rates and birth rates, and the impact of social and economic disasters of the twentieth century. It is still marked by the notable decrease in the number of births in the years 1942-1945 and the "echo" of this reduction after 20 years, enhanced by the decline of fertility rates in the 1960s. Then the observed decrease in the number of births in the late 1980s ("the second echo" of the war), and the increasing number of births in the mid-1980s as a result of family policies promoted during this period. The pyramid of 2013 shows the reduction of births after 1990 and their growth after 2002.

For the present and upcoming decades, the age structure of population is formed and its significant changes are impossible. Migration outflow increases population aging of age structure with a considerable impact on changing the ratio of the three major age groups: children, adults and elderly. Thus, there are some objective prerequisites for negative trends in the dynamics of natural increase, which can be stopped only by radical positive changes in fertility and mortality regimes.

Age and sex pyramid allows us to predict, under constant reproduction rates of the population, when will happen the next narrowing of pyramid bases and thickening of its top. It should be noted that the process has started: during the next decade – the reduction of the absolute number of births is inevitable since the most reproductive age will be reached by less numerous generations born after the 90's, while the retirement age will be reached by numerous generations born in the late 50's - early 60's, which will determine a negative natural increase.

Not only depopulation, but also fluctuations of generations sizes (*demographic waves*) in the age structure of population have negative consequences for country's socioeconomic development. Among obvious consequences: fluctuations in demand for the education and healthcare institutions due to constant decrease of children (Table 1), which raises the need to take measures that would ensure the efficiency of investments in these sectors.

<sup>1</sup> Strategic National Program for Demographic Security of Moldova (2011-2025). Government Decree No.768 as of 12.10.2011. Official Gazette No. 182-186 as of 28.10.2011.

**Table 1. Dynamics of population by age group 0-15 years, 2014-2025**

Year	Population size by age group 0-15 years (thousands)	Decrease compared with the previous year		% compared with overall population
		(thousands)	(%)	
2014	607.7			17.1
2015	605.6	-2.1	0.3	17.1
2016	603.8	-1.8	0.3	17.0
2017	602.0	-1.9	0.3	17.0
2018	599.9	-2.1	0.3	17.0
2019	596.8	-3.1	0.5	16.9
2020	591.3	-5.5	0.9	16.8
2021	584.7	-6.6	1.1	16.7
2022	576.7	-7.9	1.4	16.6
2023	568.0	-8.7	1.5	16.4
2024	557.8	-10.1	1.8	16.2
2025	544.7	-13.1	2.4	15.9

**Source:** Center for Demographic Research INCE population forecast.

Less visible are the fluctuations of supply on labor market and the ratio of employed and unemployed population (demographic burden). It should be noted that the population decline did not have yet a significant negative and visible economic effects. Conversely, the reduction of the number of population decreases the pressure on education, health, social security and social protection systems. In addition, during the latest decades the structure of population, besides demographic aging experienced some important positive changes for economic growth (*demographic dividend*). Thus, the absolute number of the working age population has been steadily growing, increasing during 2000-2013 by about 244 000, while the share of the overall population peaked – around 66%. In addition, labor rejuvenated because the labor market was entered by numerous generations born in the 80's with a relatively high level of education, advanced knowledge, constituting a valuable potential for the economy. But this demographic dividend has not been fully exploited. Reduced employment opportunities for national economy according to personal preferences, and lack of opportunities to obtain adequate income push young people to emigrate. Thus, 76.5% of labor migrants indicated that the main reason for going abroad is *low wages in Moldova*. Among other reasons are: *lack of jobs for the skills / qualifications (8.8%) and poor working conditions (6.0%)*<sup>1</sup>.

*Demographic dividend* is an opportunity for accelerated economic growth due to fertility and mortality decrease and subsequently due to changes of population age structure.

Reducing the number of births during a year in a young country the size of dependent population grows slower relative to the size of working age population. With fewer people in need of support, a country has an opportunity for rapid growth due to the benefits of demographic decline (it is considered that the working age population produces more than it consumes, and the difference is divided between dependents – children and the elderly). Given equal conditions in terms of employment, unemployment, labor productivity and so on, such situations lead to increase of gross domestic product per capita, thus creating a '*demographic dividend*'. The benefits don't occur automatically, they arise when appropriate economic and social policies are implemented, such as investment in the manufacturing sector, increasing employment, development of social infrastructure, additional investment in health, education, etc.

<sup>1</sup> Extended Migration Profile in Moldova, 2007-2012.

<http://demografie.md/?pag=news&opa=view&id=384&tip=noutate&start=&l=>

In Moldova the "window of opportunities" is not yet exhausted, but this stage is very close. Currently, the phase of depopulation with demographic dividend is closing to an end when the reduction in population is accompanied by increasing quota of working age. In the near future, another stage will start – depopulation without demographic dividend: population of working age will decrease continuously.

The dominant factor for the changes of working age population represents the ratio of positive impact from "cohort effect" and the negative impact of excessive mortality, especially of male population. The role of migration in this process is limited to emphasize the influence of these two components.

Although during next decade labor potential will be maintained at a fairly high level (Table 2), annual reduction being within one percent, a significant part of this contingent works abroad, having unskilled jobs that don't correspond with the education leading not only to a reduction of labor quality, but also causing adverse qualitative changes.

**Table 2. Dynamics of population at working age, 2014-2025**

Year	Number of people at working age (16-56/61, thousands)	Decrease compared with previous year		% in overall population
		(thousands)	(%)	
2014	2333.4			65.7
2015	2315.6	-17.8	0.8	65.2
2016	2293.6	-22.0	0.9	64.7
2017	2271.8	-21.9	1.0	64.2
2018	2250.7	-21.1	0.9	63.8
2019	2229.1	-21.6	1.0	63.3
2020	2210.3	-18.8	0.8	63.0
2021	2190.9	-19.4	0.9	62.7
2022	2174.3	-16.6	0.8	62.5
2023	2158.1	-16.2	0.7	62.3
2024	2144.3	-13.8	0.6	62.2
2025	2133.5	-10.7	0.5	62.3

**Source:** Center for Demographic Research INCE population forecast

Changing the ratio between the contingent which will enter labor market and which will exit it will have significant consequences in terms of labor supply, labor productivity and labor demand.

However, labor market changes are not necessarily determined by demographic effects. The negative dynamics of jobs continues to influence adversely labor productivity, economic growth and welfare because wages have the largest share in population income. The functioning of labor market in Moldova is affected by such phenomena as high proportion of low productivity jobs and low wage levels; high long term unemployment levels and high unemployment rates among youth; big share of informal activities in a number of sectors and branches of production; lack of adequate monitoring and forecasting systems for labor market; etc.

It is known that during the coming decades, demographic aging of population will be growing rapidly. In numerous papers and reports, there is a concern about the aging of population and the increase of economic burden on the active population, thus on the forefront are considered the adverse effects of this process. This unilateral treatment of population aging places on secondary level one of the most important achievements of social progress - increasing life expectancy, which opens new horizons and possibilities for human potential. Although during recent years there has been a positive development in the dynamics of life expectancy at birth,

compared with other European countries Moldova is in the group of states with comparatively low levels: 67 years for men and 75 for women (in 2012), while the European average is 72 years for men and 80 years for women.

Currently Moldovan citizens have on average a shorter life expectancy as well as a shorter duration of economic activity, the retirement age is also shorter compared with other countries. In the next decade the number of people at retirement age will be influenced by cohort effects. Given that numerous generations born in the late 50's – early 60's will reach the retirement age, there will be an impressive increase of their ratio in the overall population, especially in the next three years, the annual growth rate being of 2.5-2.9% (Table 3).

**Table 3. Dynamics of population at retirement age, 2014-2025**

Year	Number of people at retirement age (57+/62+), thousands)	Increase compared with previous year		% in overall population
		(thousands)	(%)	
2014	611.8			17.2
2015	627.7	15.9	2.5	17.7
2016	646.2	18.5	2.9	18.2
2017	663.3	17.1	2.6	18.8
2018	678.2	14.9	2.2	19.2
2019	693.0	14.7	2.1	19.7
2020	705.7	12.7	1.8	20.1
2021	718.4	12.8	1.8	20.6
2022	728.1	9.7	1.3	20.9
2023	736.5	8.4	1.1	21.3
2024	742.5	6.0	0.8	21.6
2025	747.0	4.5	0.6	21.8

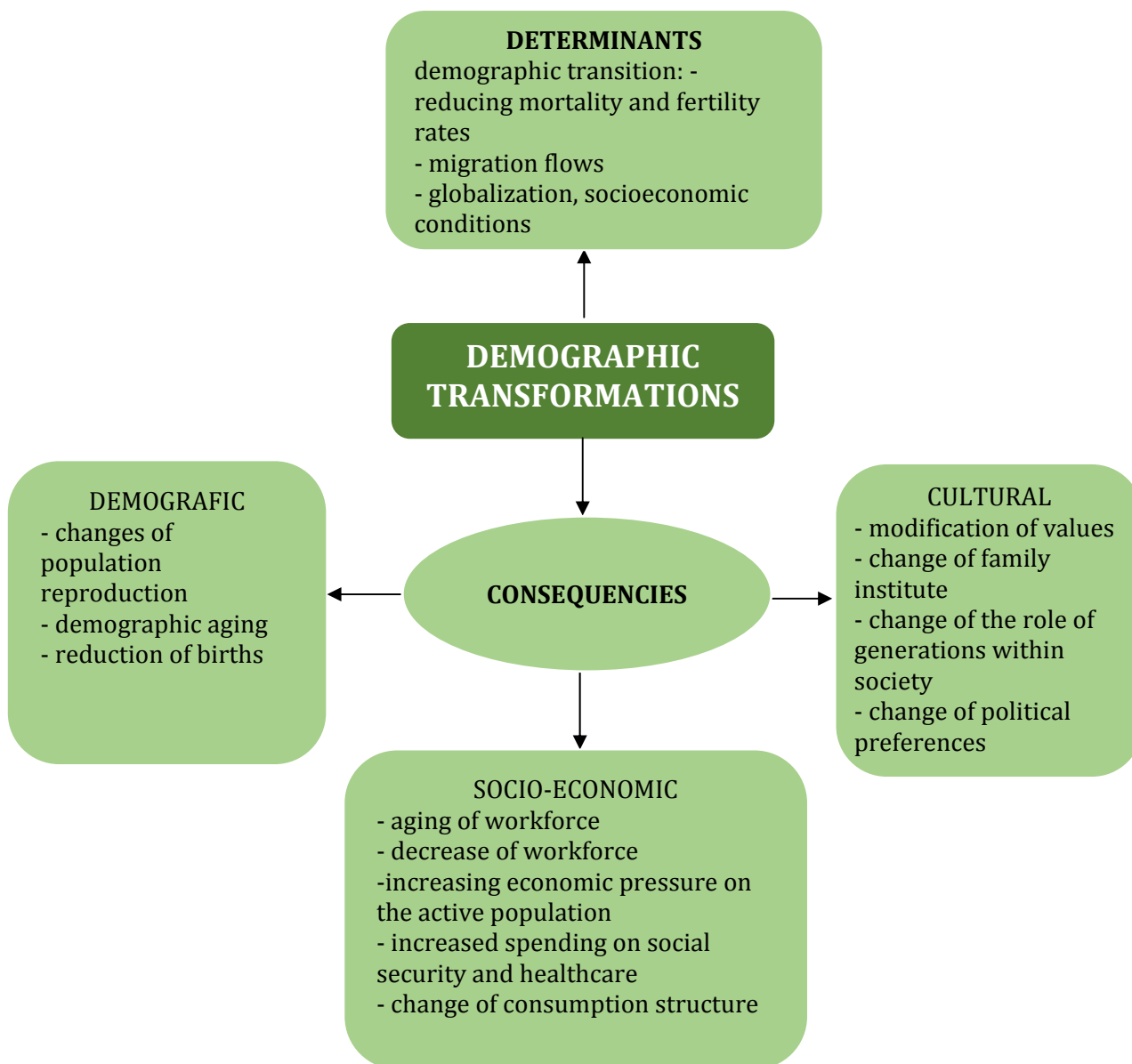
**Source:** Center for Demographic Research INCE population forecast.

At the same time, the contingent of pensioners increases with people withdrawing from the labor market on grounds of disability, which significantly increases the number of pensioners. It is worth noting that during the last decades, more than 20% of the total number of pensioners represented people with disabilities. The dynamics of this contingent is quite stable, moreover, it is recorded an increase of disability pensions<sup>1</sup>.

Demographic changes that have occurred and the expected ones show the result of global macro-social changes, including the demographic transition – the transition from high levels of mortality and fertility to their low levels, with many consequences in terms of demographic development, socio-economic and cultural development of society (fig. 2). These effects, as a rule, last in long term gaining big shares or reducing to some stages of demographic development depending on age structure. Note that often the consequences of structural changes of population age are treated superficially resuming only to aging related problems. However, they have a much wider range and include all age groups affecting many social processes. Changes of population age structure involve changes of the overall structure of social needs.

Inevitable changes of population age structure increase the urgency of broad reforms today to help the country avoid potential problems of tomorrow. Reviewing economic policies and determining strategic actions in key areas will help reduce the impact caused by current demographic changes and will strengthen social integration, creation of favorable conditions for young people and for elderly.

<sup>1</sup> Annual Social Report, 2012. / Ministry of Labour, Social Protection and Family.  
[http://www.mmmpsf.gov.md/file/2014/RAPOARTE/MMPSF\\_RS\\_2012.pdf](http://www.mmmpsf.gov.md/file/2014/RAPOARTE/MMPSF_RS_2012.pdf)



**Figure 2. Demographic transformations: determinants and their consequences**

Changing population age structure affects the basic conditions of labor market functioning, causing its structural changes. The increase in the near future of the number of people in age group 50-64 raises the issue of active aging. This age segment implies aspects of employment policies and pension system reform, creation of opportunities for economic activity continuation, thus contributing to dependency reduction. The number of older people in the group of working population will increase both because of demographic trends and since it is unlikely that in the long run will be possible to continue applying early retirement. The need to keep on the labor market an increased number of older workers requires a new approach to all issues regarding the ratio between age and the labor market (continuous education, retraining, creation of special jobs with flexible working hours etc.). Learning and changing qualifications during lifetime will become more important with the increase of average life expectancy and economic growth in the coming decades.

Demographic changes will put pressure on education system in two ways. On the one hand, reducing the number of students will cause decreased demand on the labor market for teachers, which will save budget resources. On the other hand, to enhance the ability of economic activity



for older people will require the development of continuous education (during the active period of lifetime) and of new forms of education currently missing in the Republic of Moldova.

High quality for basic education is the foundation for employees to support the new qualifications under dynamic conditions of contemporary society and under fast development of information technologies.

Strengthening the education system (infrastructure and staff) is needed to meet considerable changes in the structure of "pupils" by expanding educational programs, promoting and encouraging lifelong learning to meet educational enrollment fluctuations at certain levels. Encourage employers to provide training / retraining to its employees and to other people, promote mutually beneficial relationships between educational institutions and employers, private sector development of education (professional training, retraining).

As it has been mentioned, currently the Republic of Moldova has a relatively young population of working age having a significant potential for economic growth. It is important that actions in this area should not be focused on measures that will be necessary when there will be labor shortage, it is rather necessary to focus the efforts on creating jobs for economically active generations: both for young people entering labor market and for older people who wish to extend their economic activity. The effects of aging can be counteracted by increasing the employment rate.

Increased labor productivity is the second essential factor to maintain and improve contribution of labor force to development. Changes in the labor market are not necessarily determined by demographic effects. The situation within economically developed countries with much higher aging levels compared with Moldova indicates that in the last years, labor productivity was the only major factor that influenced the growth of income per capita<sup>1</sup>. Labor productivity growth could minimize the quantitative effects of lowering labor force. Innovations and technological changes are an indispensable part in achieving this goal.

Developing labor market and boosting employment within the formal sector of economy will increase tax revenues and opportunities to expand social programs for the elderly. In addition, labor market adjustment to aging includes such measures as prevention of early retirement, elimination of labor market discrimination for the elderly, increasing professional competitiveness for elderly and creating favorable conditions for decent work (lighting, working hours, etc.).

Population growth of retirement age causes problems to ensure the stability of retirement funds and growing expenses for their creation. For Moldova the problem is complicating since most people of retirement age benefit of pensions, while the population of working age does not fully participate in completing social funds. The causes are multiple: unemployment, intensity of non-regulated migration processes for work abroad, considerable proportions of shadow economy etc. which as overall, reduce the possibilities of Social Security Budget.

For economic reasons, simply because of inevitable budget constraints, increasing the retirement age will probably be inevitable. But in terms of demographic preconditions, Republic of Moldova does not possess yet necessary conditions to achieve that reform. The experience of many countries shows that aging takes place in parallel with its rejuvenation meaning that it moves the boundaries of old age. People not only live longer but also reach older age, maintaining good health, thus there are objective reasons for extension of their economic activity. In Moldova, the situation is different; population health is characterized by high levels of

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<sup>1</sup> From red to grey: "A third transition" of aging population from Eastern Europe and former USSR. [http://www.unfpa.md/images/stories/pdf/De\\_la\\_rosu\\_la\\_gri.pdf](http://www.unfpa.md/images/stories/pdf/De_la_rosu_la_gri.pdf)

morbidity and disability. Under these conditions, increasing the retirement age may be accompanied by multiple economic and social consequences. Currently, this segment of the labor market (employees under retirement age) is self-regulated. The ones who are able to work, want and get a job – are working, all the rest – are not. Neither the government nor the employers have any obligations for them, inefficient workers, including for health reasons, are naturally eliminated from the labor market. In subsequent years, the supply of labor will be reduced with the entry on labor market of less numerous generations born after 1990 and under these circumstances, maintaining the economic activity of retired people will be very actual. However, extensive inclusion in economic activity of the elderly who often have health problems, may be an obstacle to economic development, causing increased unemployment of the same elderly who cannot find jobs in line with their working potential, which in turn will increase the state's social obligations towards this segment of the population, etc.

In addition, we have to mention that for about ten years, Moldova will have many residents in retirement age without entitlement to social security since they did not contribute to the social fund (migrant workers and other social uninsured employees). These people will have to be supported by social measures and the current system of pensions and social assistance should be extended to guarantee to the people the right to social protection from the state.

The modernization of the pension system is an issue that needs a swift resolution aimed at gradual increase of the retirement age, its equalization between men and women, and introduction of a defined contribution format by developing a multi-pillar scheme, which, besides the public PAYG type of pensions, will foresee pension funds under mandatory and voluntary contributions. Reforming the pension system will not automatically solve the problem of income security for the elderly since the current pension system (PAYG) and the cumulative (multi-pylon) one are not perfect, their stability being determined by several factors<sup>1</sup>. With the economic instability, low income of population, high poverty rates both systems generate inequality: PAYG pension system whose effectiveness depends on the demographic factor (the percentage of working age population), enhances the development of inequality between generations, and the cumulative system – within the group of retirees (under current circumstances an insignificant proportion of the population has income to contribute to retirement funds). Besides this, the introduction of a cumulative pension system may be an additional factor in reducing birth rates since the birth of a child in the family decreases the accumulation, respectively the amount of possible contributions. If the hypothesis "it's better to make savings, than to have children" launched by the French economist of the nineteenth century Jean-Baptiste Say will confirm, then aging process will accelerate.

It is to note that working towards the objectives related to ensuring healthy and active life of the elderly, whose number is steadily growing, offering opportunities to get decent jobs, due to the need or desire to remain economically active as well as to guarantee access to appropriate healthcare and social assistance, will be a difficult task to achieve. If in the developed countries the current elderly generations and the forthcoming ones, due to economic stability and high living standards had the opportunity to accumulate material resources and can afford for example social services, home care etc., then in Moldova, since current elderly people and the forthcoming ones are those who were unemployed or who worked in the agricultural sector earning extremely low wages, respectively, contributed with reduced allocations to social fund or worked abroad and did not contribute to social funds. If economic growth will not be achieved and its paces of growth will not increase then solving aging problems will require increasing the burden on the working age population (raising taxes or other contributions).

The current system of socio-economic institutions was created under the conditions of young people and does not meet the needs of society that is rapidly aging. Thus, institutional reform is

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<sup>1</sup> Towards a sustainable pension system in the Republic of Moldova / V. Antonov, V. Frunzaru, O. Poalelungi. Chisinau, 2012, p.14.



an objective need and ignoring it or delaying the reforms will increase its costs. However, while promoting demographic and socio-economic policies, should be considered the existing cross-sector problems and the ones that may occur in the process of changing age structure of the population. Solutions identification in this area means to implement consecutive reforms related labor market, pension system, education, health and a better control of migration processes. The activity or inactivity in one of the listed areas will have a boomerang effect on other areas (pension reform will not be effective without the positive dynamics in health, labor market development, etc.).