

Response to the comment of András Simonovits*

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First of all, I would like to express my pleasure that one of the greatest figure of the Hungarian pension insurance profession reacted to my study (*Banyár, 2014*) within such a short time. Below, following the order of sequence and numbering of the exposition by András Simonovits, I try to react to each of his statements.

1. Child-rearing and pension in the OLG model

In two short paragraphs, Mr Simonovits formulated the following statements with regard to my writing:

- a) “it can really be argued for that families with children should receive higher pensions or pay less for social security contributions than those with no children.”
- b) “he ignored the fact that the model mentioned as his own work also appeared in writings of *Gale (1974)* and *Augusztinovics (1983, 1992)*.”

With regard to statement *a*), I think it is important to note that in my writing I do not argue that households with children should pay less contributions or receive higher pensions. On the contrary, I say that every person should pay the same amount of contribution, but for this amount nobody can have a claim to any pension because this is only the settlement of their debt. A pension is only payable to those who reared children and thereby contributed to the maintenance of the contribution payment capacity. Everything that is attributed to me has been said by other persons with regard to the issue rather than by me.

As regards *b*), I really use the term “my model” in two places, but only in order to make difference between the original model of Samuelson and the way in which I had supplemented his model. This can really be misunderstood and I apologise for that; now I say it more precisely: I do not think that I have created an independent model; the model remains the ownership of Samuelson, and I only supplemented it in a point, namely: I added another simple, linear equation to Samuelson’s simple, linear equations. I myself do not call it a modelling performance. The performance

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of the article is the conclusions that had been drawn by me and this is a novelty; neither Gale nor Augusztinovics go in this direction. However, I myself also discuss in the summary at large (but not expansively at all), how many people had already tried to explicitly include child-rearing in the OLG model. Of course, the excellent articles cited by Simonovits should also have been included in this study (together with many other articles); I need to apologise for that as well.

2. The tax on childlessness and its problems

Here, Simonovits objected that I do not study how the costs of child-rearing can be compensated outside of the pension system. He is right in the respect that I did not analyse this aspect in this article, but I reviewed all of the problems he raised in this point in one of my other articles (*Banyár 2012*).

There is a simple reason why I do not discuss here what he missed: it was not a preconception on my side that the problem of child-rearing must be solved within the pension system and I did not want to find arguments for that. Instead, I checked what the problem was in the pension systems built on Samuelson's principles and I faced the problem of child-rearing and I explained that in my article. However, I admit (as I did both in my article written in 2012 and in another article under publication) that the problem of child-rearing costs can theoretically be solved outside the pension system as well. It is another question that if we try to do so, we find such problems which are mentioned by Simonovits (and are also discussed by me) and the tax level should be increased in general very significantly, while, if it is solved within the pension system, the pensions should be reduced for certain segments; consequently, the solution within the pension system seems to be much more feasible.

3. The role of child-rearing and pension in my writings

According to Mr Simonovits, in my article I placed his earlier writing in a false light (*Simonovits 2002*). I wrote the following: "Samuelson's article influenced the modelling of pension in another way as well. Based on his model it became a common view that, in relation to the pension, the human career starts in the active age and they entirely disregarded the upbringing of people and its costs (this approach is followed in the Hungarian pension theory, for example, by the works of Simonovits – see, for example (*Simonovits 2002*)." Namely:

1. I mentioned the book written in 2002 as an example of a common phenomenon and Simonovits also admits that basically this was the guideline followed by the book.

2. On the other hand, I mentioned him as the person who had already taken into consideration these problems in his recent writings.

Despite these facts, I could have formulated my text in relation to the book even in a more differentiated way. In a more differentiated approach I would have had to emphasise that everyone, including both of the works of Simonovits cited by me in the article, takes Samuelson's AI history as a basis.

4. Which is the better: the Pay-as-you-go or the capitalised pension system?

In this point, Simonovits largely agrees with me. On the other hand, he makes an allusion in the last paragraph that can be understood as if I proposed that the work-based pension systems should be liquidated and instead a funded system should be introduced. Indeed, I have some writings of this type (e.g. *Banyár–Mészáros 2003*) where I propose that solution in the last resort. However, my article analysed by Mr Simonovits is not of this ilk; here, I propose the introduction of the pay-as-you go pension system based on another history than that described by Samuelson, i.e. not a funded or only a partially funded one (for childless persons). Basic state pension is not mentioned in my article at all.

Thus, in my article I do not propose that work-based systems be terminated (even though after the proposed change, the application of the word "work" will not be justified any more) or reduced to the basic state pension and I do not propose either that it should be funded. Instead, I propose that we should declare: contributions are due to the previous generation for having reared us and nothing is due to us for paying the contributions; i.e. if we want to have pension in the future, we should either rear children or set aside the money saved on not having reared children and this will be the source of our pension.

It is also important to emphasise that I do not disregard migration and immigration; what is more, I worry that, for this reason, the situation will be still worse in our country than currently because people will mainly migrate (I held an exposé on this issue in the autumn of 2014). On the other hand, I much prefer the flexible retirement age; it is absolutely necessary (I have already written that in several works) even in the system proposed in this article, simply because it makes any pension system unsustainable that the continuous increase in life expectancy appears only in the increase of the years spent as a pensioner and the active

life phase is unchanged or (due to the longer period of education) it may even decrease.

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