

## **Report on the Pension and Children 2.0 Conference\***

*Katalin Botos*

Hungarian economists concerned about Hungary's deteriorating demographic situation and the search for a solution to improve it have been studying the theoretical background and practical necessity of linking pension to parenthood for at least a decade.

In 2012, this issue was discussed at a Budapest conference which attracted great interest. The presentations and comments at this conference were also published in a book edited by Erzsébet Kovács (from the Corvinus University of Budapest). Since that time, consideration of the issue and the search for a solution has become even more intensive, and as the problem has become even more acute, public and political attention to the issue has increased. This topic also appeared in the 330-point competitiveness programme of the Magyar Nemzeti Bank.

Consequently, after seven years several economists thought that it would be worth repeating the 2012 conference with the title "Pension and Having Children 2.0", at which researchers of the topic could present (primarily to each other, but also in opposition to each other) what progress they had made in analysis and research and what results and outcomes they had achieved thus far.

The academic conference, organised by civil persons and supported by the Demographic Round Table, was held at the Corvinus University of Budapest on 13 June 2019. The conference organisers thought that proposing specific solutions was not incompatible with academic way of thinking; moreover, they thought that the very meaning of the word "economics" (which stems from the ancient Greek term "oikonomia", meaning "household management") obliges economists to provide practical solutions. The proposed solutions varied widely. However, most of the participants agreed with the basic concept, i.e. to somehow link the pension benefit to the number of children one has and raises. It was stressed that the primary reason for the reform is to make the system more equitable, as the current pension system is expressly against having children. As it is, having children results in a less advantageous financial situation both during active and retired years, compared to

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\* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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other citizens who are in a similar situation but do not have children—even though everybody needs the upcoming generation, citizens with and without children alike. Conference attendees also agreed that equitable solutions need to be guaranteed for the childless to ensure their security in old age. Reforms should, therefore, be in the interest of every Hungarian citizen.

Twelve papers were presented at the conference. Most of the presenters held an academic degree.

The keynote speech was held by *Pál Demény*, an internationally renowned demographer and member of the Order of Saint Stephen of Hungary. Starting from the Fundamental Law of Hungary, he deduced how the secure livelihood of the elderly should be ensured in Hungary: “Hungary shall contribute to ensuring a life of dignity for the elderly by maintaining a general state pension system based on social solidarity and by allowing for the operation of voluntarily established social institutions.” (Paragraph (4) of Article XIX of the Fundamental Law of Hungary). He was of the opinion that the wording of this provision was moderate; more specifically, the expression “shall contribute to” may be regarded as an implication that both components of ensuring a life of dignity for the elderly (namely the general state pension system and self-reliance) are important, but their relative weights are not defined. In the past, adequate security in old age required the raising of a sufficiently high number of children until their productive adult age. The public pension institutions of modern societies and the individual saving options have greatly contributed to the significant reduction of the economically necessary rates of fertility and a radical erosion of the cultural and ideological foundations of the previous intergenerational transfer. However, the distorted age structure caused by a collective demographic behaviour that does not ensure simple reproduction of the population obviously undermines the viability of modern public pension systems. At the same time, in terms of individual savings, this also punishes parents who, by raising children, contributed more to some kind of reproduction of the productive population. Given this situation, the collective interest requires a family-friendly, i.e. fertility-increasing turnaround. Proper reform of the public pension system could greatly contribute to the success of such a turnaround. The goal is simple: individual fertility and financial security in old age need to be re-connected in a regulated institutional framework. Pro-natalism is, of course, in accordance with the requirement of equity.

The solution proposed by this renowned demographer 34 years ago would be to transfer a (state-defined) share of contributions to parents. Implementation of such a reform would not distinguish between already-retired people and future retirees. It would be automatic, simple and feasible in a gradual manner. One significant requirement for the long-term efficiency of the reform (which would require constitutional protection, if possible) would be that continuous reforms

that would undermine the efficiency of the system, including its pro-natalist effect, do not take place in the increasingly ageing society.

Both *Katalin Botos* and *József Botos* argued that the pension system requires a fundamental paradigm shift. The previous insurance-based paradigm in which we “save money” for *our* retired years should be replaced with an *investment-based paradigm*, specifically a human-investment-based paradigm. We should realise that we do not pay the pension contribution to ourselves but to the previous generation that raised us and invested considerable energy, i.e. money and time, in this “venture”. Repaying this investment is equitable and this is what the benefits provided for pensioners from our contributions correspond to. It is, naturally, not only the parents, but also the state (i.e. the other citizens) that invests in parenting. While the taxes and contributions paid by new generations of employees provide a refund for the state for its expenditures, parents do not receive anything of the sort. Couples with children actually pay *double contributions*: the “official” pension contribution from their wages and the amount spent on parenting (from which we can deduct child-raising allowances; the financial burden families undertake is, however, still considerable). Complementing the employment-linked pension benefit with a child-backed channel to ensure proportionate compensation for the education investments of parents would, therefore, be equitable. At the same time, current forms of pension savings should be reviewed and pension savings for security in old age should be given priority. The childless could put the money they *save by not spending on children* into such schemes, regardless of the fact whether their childlessness is intentional or not. This solution would be completely equitable. We can say that this would provide people with children with a child-backed supplementary pension, while the childless could supplement their work-based pension with asset-backed savings. In addition to making the system fundamentally more equitable, this system would, in the long run, have a pro-natal effect. It would also be more expedient, with consideration of several other criteria, to put the mandatory public system on a score-system basis to mitigate several other tensions.

*Zsuzsa Morvay* from the National Association of Large Families emphasised that maintaining social security requires the reproduction of contribution payers, i.e. the raising of a sufficient number of children who become contribution payers. Insured people of active age can contribute to maintaining the pension system not only financially, but by raising children as well. The latter is, however, not sufficiently reflected in the conditions of the current pension system. She drew attention to the missing revenues due to working abroad and to the need to settle this issue internationally. Her ideas were not far from the concept presented by *József Botos* and *Katalin Botos*.

In their study, *Iván Róbert Gál* and *Márton Medgyesi* focused on the determination of the rate of intergenerational redistribution which is justified by spending on

children. Though their research found that nearly half of the Member States of the European Union have some kind of child-linked allowances in their pension regulations, these are, however, only symbolic. The rules to determine individual pension benefits in pay-as-you-go pension systems are mostly based on, or apply some kind of a model of, the individual contribution history, i.e. a process of transfers the beneficiary paid to the older part of society. All of that is despite the obvious fact that the amount of disburseable pensions is independent of this. The pension the beneficiary receives depends on the contribution-paying capability of younger people, i.e. on the previous investments the beneficiaries made in the human capital of the young through parenting, care, family allowances, education, healthcare and other spending. This inconsistency does not create unequal conditions on its own, if transfers in the two opposing directions, i.e. from the active to the children and from the active to the elderly, correlate on the individual level. The speakers found that this was not the case. Compared to the childless, people who raise children provide considerably higher transfers in their active age for the same transfer they receive in old age. In other words, compared to the childless, people who raise children need to pay considerably more for the same amount of transfer received in old age. They supported their statement, on the one hand, with stylised careers divided on the basis of child-raising and plotted on the basis of the age groups of the items in the National Accounts and Household Satellite Accounts and, on the other hand, by comparing the present values of the transfer amounts accumulating during the careers in question.

*József Banyár* thinks that the views, ideas and concepts concerning the pension reform can be divided into two groups: pro-natalist and anti-natalist ones. In his opinion, however, an increase in the birth rates would only be a side effect. It is not the main reason for the reforms. He is of the opinion that parenthood should be considered in modern, pay-as-you-go pension systems (and only in such systems) because the current system is economically *schizophrenic*, as it distributes the capacities of children (and grandchildren) to pay pension contributions, while it absolutely does not factor in who contributed to ensuring this capacity and to what extent. Currently, there is no automatism that would create a balance between raising children and the promised pension. According to the extremist idea of *Banyár*, *only child-raising should ensure an entitlement to pension*. If you do not have children, you should save for your old age in an asset-backed system. As the author puts it, nobody should expect his or her unborn and unraised children to provide pension for him or her. He is of the opinion that this makes the two questions—namely thorough rethinking savings in addition to contribution payment and their extraordinarily secure regulation—nearly as important as determining the pension one is entitled to for having children.

*Szilvia Szegő* and *András Giday* also noted that the current pension system needs to be adjusted. According to them, the current system says, in a *false demographic message*, that a stable pension system is possible without children. Regarding the pension system as a tool to encourage an increasing birth rate, they presented a unique reform idea. They would encourage parenthood by transferring a part of the *general government revenues* received for children to a separate fund (note “general government revenues” can mean both taxes and contributions). According to their model, payments over five years would be enough to provide a monthly benefit of HUF 20,000 per child for parents over 65, divided between the father and mother in a 40:60 ratio. If the fund had a surplus, it would be lent back to the general government sector to fund related areas. This model is expected to generate jobs and economic growth in Hungary.

*I. János Tóth* proposed a combination of the traditional and modern pension systems. Similarly to the concept of Szegő and Giday, he suggests funding the pension paid to parents directly from their own children. In other words, he suggests that adults be allowed to transfer a portion of their taxes (he specifically mentions the *personal income tax*) to their retired parents; moreover, he would also leave the distribution of the amount (including 0–0 per cent) to them. This would, in his opinion, increase the autonomy of the payer and reduce bureaucracy.

Somewhat similarly, *György Németh* would also provide a specified percentage of the gross wages of children as a benefit for their parents from the general government revenues. He specifically stressed that pro-natal incentives should be applied outside the pension system.

*Péter Mihályi* discussed the issue within the formal context of mainstream economics. In his opinion, today’s Hungarian families, when they decide to have children, calculate their individual utility with a steeply decreasing marginal utility and a barely decreasing average cost. The marginal cost of raising subsequent children does in turn barely reduce in a developed society, and they remain near the average cost. The highest cost factor is obviously the sacrificed wage, as access to employment of mothers rapidly declines with an increasing number of children, and thus, their career wages decrease quickly. The social usefulness of the children to be born is nearly the same; there is no reducing yield. Accordingly, encouraging families to have more children would be demographically desirable. In his opinion, however, “what state support can do is only to mitigate the disproportionalities due to the burdens associated with parenthood; it cannot meaningfully increase the general willingness to have children.”

*Attila Bartha* studied the feasibility of pension reforms, rather than their necessity, in sociological and political terms. He analysed the potential main supporters of pension reforms and how technocrats and elected political leaders approach

the issue. What happens if the actors concerned are not strongly committed to reforms due to the delicate political nature of the issue but are also aware of its sustainability. In such a case, reforms to improve sustainability are primarily *parametric*, because *paradigmatic* reforms would imply significant support from the majority of the society for the public discourse concerning the reforms. This relationship typically does not exist in case of pension system reforms that aim to avoid acute crises in public finances; it might, however, exist in the discursive context of longer-term demographic, family policy processes such as the ones currently in question.

Analysing the demographic situation, *József Benda* pointed out that Hungarian society is in the last minute of the last hour in a process leading to a clear and drastic population decline, which is partly due to its pension system which guaranteed livelihood in old age even without children. The falling proportion of women of childbearing age would make *encouraging having many children* especially important. The role children play in the pension system should also be stressed. In his opinion, however, this produces a slow effect, given the gravity of demographical determinations, and further rapid action would also be necessary.

The conference achieved its goal, namely to exchange views. Regardless whether childbirth is encouraged within or outside the framework of the pension system, and whether the pro-natal effect is given a focus or is only regarded as a side effect, the issue of having children is indisputably related to *the functioning of major distributive systems*. Expecting that the criteria for the long-term sustainability of the pension reform would, as Attila Bartha put it, overcome concerns in “the discourse over demographic and family-policy processes” and lead to a feasible, consensus-based proposal is perhaps more than an illusion.