

Possible Answers to Hungary's Demographic Challenges*

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József Benda – Gusztáv Báger (eds.):

Jövők a gyermek – Adalékok a népességyarapodás társadalmi programjához I. (Our Future is the Child – Contributions to the Social Programme of Population Growth I)

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One of the greatest economic and social challenges of the coming decade is demographic trends, i.e. whether the trend of natural population decrease in Hungary can be reversed or at least the rate of decline can be slowed. Back in 1980, the Hungarian population was 10.7 million, compared to which it decreased by a total of about 1 million in the last four decades, until January 2020 (HCSO 2020a). The decline in population is mainly due to a significant decrease in the fertility rate, while mortality rates have improved only slightly, and thus the annual number of births cannot compensate for the population decline due to deaths. Population projections using different assumptions all expect that the decline and ageing of the Hungarian population will continue in the coming decades. Based on the results of each projection, the population in Hungary may decrease by another 0.6–1.7 million in the next 40 years, i.e. in 2060 it is expected to be in the range of 8–9.1 million (Eurostat 2019; Obádovics 2018; UN 2019).

In order to stop the population decline, i.e. to ensure an unchanged population, it is necessary to achieve and sustain a fertility rate of around 2.1. As a positive development, the number of children per woman in Hungary increased remarkably after 2011 (from 1.23 in 2011 to close to 1.5). Since 2010, the government has supported childbearing through several measures, which is reflected in the increasing amount of budget expenditures on family benefits. Nevertheless, between 2016 and 2019, the fertility rate stagnated at around 1.5. A recent positive development is that since December 2019 the number of births increased for five consecutive months compared to the same period of the previous year:

* 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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according to the available data, between December 2019 and April 2020, a total of 2,111 more children were born compared to the same months of the previous year (*HCSO 2020b*). The increase in the number of births may be related to the Family Protection Action Plan announced a year ago, in February 2019. However, the fertility rate remains below the threshold of 2.1 needed for reproduction, and so, in addition to existing family policy measures, further targeted measures may be needed to increase it in the future.

The collection of studies entitled "Our future is the child" focuses on solutions, formulating innovative, cross-cutting proposals to stop population decline. When examining population trends, the book deviates from conventional demographic analyses at two points. First, it takes a transdisciplinary approach, i.e. it examines the causes of population decline through the lens of several disciplines (economics, demography, psychology, sociology, and pedagogy) at the same time. Second, the volume reflects the further need for a change in attitude that has already begun, i.e. it does not view demographic trends as a given, but wants to change the way they develop and presents solutions for doing so. The proposals set out in the book are the result of an expert workshop involving more than 200 experts.

One of the important messages of the volume is that the time factor plays a vital role in the current situation. In the coming years, large female age groups will leave childbearing age, which will significantly reduce the possibility to increase the birth rate over the longer term. With this in mind, the authors classify the proposals presented in the study volume into three groups according to the proposed implementation schedule: they designate short-, medium- and long-term tasks. The measures proposed for short-term implementation aim to support women aged 35–45. According to the authors, the introduction of the Professional Parents Career Model and the development of demographic strategies at national and local levels may be one such effective measure even in the short-term.

In the *Professional Parents Career Model*, parents (mothers) raising at least three children could stay full time at home to raise their children, for which the state would pay a fair amount of wage. József Benda points out in his work that the main objective of the programme is to ensure the healthy upbringing of young children and thus to create unity and stability for families. For one thing, the author bases the new career model on the fact that – according to the results of a questionnaire survey conducted in 2017 on the 35–44 age group's willingness to have children – 25 per cent of the respondents would like to have at least one more child. On the other hand, the justification of the programme can also be supported by the observation that the remarkable decline in the number of families with four or more children plays a key role in the lower number of children compared to previous decades. *In Benda's view, increasing the number of large families is the solution to the current demographic problems.* He argues that the introduction of the programme is also

justified by the fact that young people who, by choosing a large family lifestyle, feel that raising children is their profession, cannot choose full-time parenthood for financial reasons, but instead have to balance between family and work. The analysis is based on the premise that child-rearing should be considered a socially useful occupation, i.e. “invisible” work, and thus wages should be paid for it just like for other types of work. He argues that introduction of the programme could make it possible to conciliate social interests with private ones, i.e. there would be no need to choose or share energies between raising children and working.

The Professional Parents Career Model presented by Benda aims to provide targeted assistance to those with large families, and therefore it could be possible to apply for the programme when a third or additional child arrives. Under the career model, parents would not receive aid but a fair amount of wage from the state, including employment relationship and pension entitlement. Wages under the programme would not be provided as an automatic right when a third or additional child is born, but interested families could apply if the conditions announced by the state are met, and committees would decide on the suitability of applicants. In the first year of the child’s life, only the mother could be a “full-time” parent, and from the second year of life, another family member (e.g. the father) could take over the care of the child. Applicants would also undertake to participate in a training programme aimed at improving family and child-rearing skills. Based on the proposal, in the case of three children, full wages would be paid until the youngest child enters school, after which the mother could find part-time employment in the labour market. Families with four or more children could receive full wages from the state until the youngest child is 10 years old.

According to the author’s assessment, within a year and a half of its introduction, the programme could produce numerical results in birth rates, and he estimates that the number of newborns could rise to 130,000 per year. The primary target group of the career model can be mothers aged between 35 and 44 with two children. In light of the results of the questionnaire survey, women who are currently only marginally present in the labour market (e.g. part-time workers, recipients of maternity benefits) are primarily interested in participation. One important element of the programme is monitoring: the number of entering families would be continuously monitored by region and district. This may be necessary for several reasons: first, fertility data vary greatly in some counties of Hungary; second, by setting regional quotas, large families living in underdeveloped settlements (villages) could be supported in a targeted way.

One of the important questions about this programme is the following: What budgetary impacts would its introduction have? The evolution of budgetary impacts is determined by the parametrisation of the programme, in particular the number of entrants, the duration of participation and the amount of wages to be paid to

the participants. Based on the calculations presented in the volume – differentiated according to the number of children – full-time parents would receive a monthly net benefit of around HUF 300,000–400,000 from the state in the first 3 years, after which the amount of benefit would decrease by 15 per cent. When estimating impacts, the authors consider two hypothetical scenarios. According to the first version, with the entry of 10,000 persons, the budgetary expenditure incurred would be HUF 42 billion in the year of introduction, while with a quota of 20,000 persons it would be HUF 70–80 billion. Due to the nature of the support, the budget of the programme would increase in the years following its introduction, and in the light of our estimates approximating the calculations of the study, in the case of a large-scale entry of 11,000 persons per year, the annual budgetary impact may total HUF 180 billion after 5 years and HUF 455 billion after 10 years. Estimating the budgetary impacts may require further clarification.

In my view, in order to further elaborate some details of the Professional Parents Programme, it is important to consider several factors. The question arises: For how many years can such a headcount increase rate be realised, considering the size of the families potentially applying for the programme? Based on the proposal, the selection criterion can be the existence of secondary education qualification. According to the detailed birth statistics for 2018 by the HCSO, in 2018 the number of third or additional newborn children of women with at least a secondary education was 11,355 (HCSO 2020c), i.e. when examined statically, this figure is likely to be the maximum number of annual applications. On this basis, the version with a lower number of applicants presented in the study may be more realistic. Under the proposal, the mother could stay at home until the third or additional child reaches the age of 18. After such a long absence, it might be difficult for mothers to re-enter the labour market. Further impact studies may be needed to map the labour market impact of the programme. In addition, indexation of wages for full-time parenthood on an annual basis, linked to inflation or wage growth, may be considered, because over such a long period, the established benefit would lose its purchasing power year after year. Finally, the demographic success of the programme may be substantially affected by the conditions of application and the selection process. Instead of a personal assessment, it may be practical to set predictable, universal conditions that families can adapt to when planning to have children.

Achieving the annual birth rate of 130,000 children, that is targeted by the Professional Parents Programme, presupposes a very remarkable increase in birth statistics as 89,200 children were born in Hungary in 2019. According to HCSO data, the last time when the registered annual birth rate in Hungary was around 130,000 children was 35 years ago, in 1985. In that year, however, the fertility rate was 1.85, and the number of women of childbearing age was 2.5 million. Since

then, the number of women aged 15–49 has decreased by more than 300,000, and the fertility rate has fallen to 1.5. The study does not indicate for which year the targeted 130,000 children applies, but it should be noted that for different sized groups of women of childbearing age, different birth rates ensure the fertility rate of 2.1. Based on our calculations, reproduction can be achieved with around 110,000 new-borns in 2030 (*MNB 2019*). According to a study by the *HCSO (2020d)*, due to the future significant decrease in the number of women of childbearing age, to maintain the current birth rate of around 90,000 children, the birth rate must rise by 24 per cent by 2033, and a birth rate of around 103,000 children is needed to reach the fertility rate of 2.1 in 2033.

Additional, medium-term proposals presented in the volume may increase the birth rate in the 2 to 3 years following introduction. These include tax measures to increase childbearing, the introduction of the National Housing Programme and the concept of the parent bond. Based on a work published by Ildikó Szabó, presenting the possible tax measures, enterprises supporting or operating institutional childcare services could receive tax allowances. In addition, it is proposed that spouses could draw up a joint family tax return based on a French model, which could be accompanied by a special allowance. Regarding consumption taxes, in the case of value added tax, the author proposes a VAT rate of 5 per cent for products related to childbearing.

In the volume, the *concept of the National Housing Programme* presented by József Csomós aims to provide young people with housing and thus to support childbearing. According to the author, the number of dwellings built in Hungary falls short of what is needed, and – due to the difficulties in obtaining housing – young people can only move out of the parental home increasingly later. This shortens the time available to have children. For this reason, supporting access to housing is an important goal from a population policy perspective as well. Among his proposals, the author sets out an expansion of the Family Housing Allowance Programme (CSOK), a social contribution tax refund for housing, including the down payment for home purchase in the personal income tax and a state-subsidised rental housing (leasing) programme.

The volume classifies the introduction of the parent bond as one of the tasks to be implemented in the medium term. As András Monostori points out in his work, the aim of the proposal is that parents who are at a financial disadvantage due to the costs of raising children could receive recognition for their child-rearing work in their retirement years. Under the parent bond, depending on the number of children raised, the state would provide support to parents, from which an additional pension allowance could be paid to them for 15 years following retirement. The 18-year parent bond would be opened at the birth of the first child, and once a year,

the state would credit it with a subsidy of HUF 36,000–240,000 per year, depending on the number of children.

The proposals in the group of *long-term programmes* can reassure families that a secure future awaits them. This includes, for example, the recognition of child-rearing when determining the pension, for which several proposals are presented in the volume. József Botos and Katalin Botos propose the introduction of a points-based pension scheme following a German model. The amount of points would depend on the earnings: for example, an average monthly salary would be worth 1 point, and the resulting score could be further increased based on the number of children. The proposal of András Giday and Szilvia Szegő concerns the introduction of a child-to-parent based pension allowance, which would be received by retired parents from the age of 65, and would mean a monthly pension supplement of HUF 15,000 per child.

As the proposals set forth show, the volume presents a wide range of ideas to stop population decline. These proposals can function as a kind of “menu” for decision-makers when planning future measures. The objective set out in the volume is to strengthen families and increase the birth rate, which appears to be supported social consensus in Hungary.

It is interesting to compare the proposals presented in the volume “Our future is the child” with the family-friendly proposals in the Competitiveness Programme of the Magyar Nemzeti Bank. The MNB’s analysis underlines the need for different subsidies for the birth of the first, the second and additional children, which are well adapted to the needs of families of different sizes (MNB 2019). Within this, the Professional Parents Programme is specifically aimed at supporting large families. The MNB’s proposals affect all types of families, and the intention is also to achieve this with an increase in employment, however, not in the context of employment within the family but rather through market employment. Like the study volume, the family-friendly proposals of the Competitiveness Programme present complex, comprehensive suggestions, the main areas of which are the family-friendly development of the health care system, the support of everyday life for families with small children and the increase of employment-related family allowances. Explanation of the proposals is not the subject of this article but, for the interested reader, it may also be worth reading the Programme of MNB.

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