

Katalin Botos

# *Finances and Life Cycles*

**SUMMARY:** The paper presents how landslide changes taking place in the 20th century have created a pressure towards lifelong financial planning. Technological advances resulting in high productivity; the polarisation of income and wealth; the changing economic and political role of the state; the proliferation of birth control; and the huge ecological footprint all call for the conscious financial planning of individual careers to ensure sustainability and thus enable us to satisfy the financing needs of social segments in various life situations and of different ages. The task presents itself at the individual and household level as well as at the macro-economic level. Growing individual consciousness is manifested in savings started relatively early and in investment in children, and becomes relevant at the macro-level when examining the anticipated level of social protection.

**KEYWORDS:** social protection, healthcare finances, lifelong planning, savings, pension system

**JEL CODES:** H50, H61, H55, D91

## OUR 20TH CENTURY

The final century of the preceding millennium brought about changes in the world of a magnitude whose real significance has not been digested by either science or public thinking. While science scaled unprecedented heights, as well as sinking to unprecedented depths, it failed to offer a comprehensive philosophical ideology in place of former religious ideologies that had attempted to explain the meaning of human existence. Science launched probes to distant planets; created fusion energy and new materials; and, through its pharmaceutical discipline, extended human life; however, it also made it possible to use all these achievements to pursue the opposite of their original purpose. The two world wars resulted in genocides never before seen in human history; fusion energy gave birth to the atomic bomb and the cold war; while the pharmaceutical chemistry achieved, or overachieved, birth control. The latter could be seen as humanity's

great achievement (Kopátsy, 2011) freeing mankind of the plight of overpopulation, had its excessive and irresponsible use not resulted in tragically low reproduction rates in the developed part of the world, especially in Europe, almost driving our civilisation toward extinction.

### What are the most important changes in social sciences?

The overwhelming majority of people in society have become citizens without possessions (property). The process had already begun in previous centuries. While at the beginning of the last century the primary source of livelihood – both in Hungary and in many other parts of the world – involved independent economic activities, by the end of the 20th century these proportions reversed completely: the former 90/10 per cent ratio of independent livelihood versus employment, respectively, is now 10/90 per cent. Society has undergone a radical reshuffle including a change in its age structure caused by a significant ageing

*Email address:* botos.katalin@jak.ppke.hu

process in developed countries. It should be noted that the opposite trend can be observed in developing countries even though better healthcare has somewhat extended life expectancy there, too. The relatively high number of children born in those countries makes the age structure younger.

At the beginning of the century, young workforce steadily flowed into employment even within Europe, thanks in part to a supply of young labour and in part to the fact that large masses of the rural population were migrating to the cities. The start of the third millennium saw mainly service-industry societies in OECD countries, where, instead of extensive, development-driving employment expansion, companies now pursue exclusively intensive, technology-based and labour-saving business policies. This is certainly the case in industry and agriculture.

Infant mortality rates are low as a very high percentage of newborn babies survive today; however, there are a significantly lower number of newborns. Therefore, the number of children is not increasing but declining. On the other hand, human life expectancy is becoming longer, which means that there are more inactive and dependent elderly people in society.

The family as a form of coexistence almost completely ceased to function as the basic unit of society by the beginning of the 21st century. There are many different kinds of loose relationships and many children born to unmarried couples. Parents no longer support each other sufficiently in different life situations and fail to help the harmonic development of children, including the proportionate funding of their education, which is an important financial issue.

Changes occurring in the 20th century led to a breakthrough in the politics of the developed countries also. State leaders are democratically elected based on universal suffrage. This

system has made public measures subject to the electoral contest. Policy horizons have been shortened to election cycles, which works against managing issues that require lifelong planning. At the same time, however, the role of the state has broadened in the wake of the “Great Depression”. Many problems formerly dealt with on an insurance basis, including for instance the right to social security, became human rights issues. The greater role of the state in this area led to the individual’s responsibility for personal career planning wither away. So much now depends on public and government decisions made beyond our control. Our financial management is not only affected by the changeability of nature. Our success is not solely determined by our ability to guess correctly what market actors require and how we produce it. It is also a matter of what taxes are imposed on us by the state. Or what kind of support it provides, if any, and to whom. And what kind of infrastructure it establishes, what research it supports or, on the contrary, how it wastes money entrusted to it on corruption, its pursuit of power, military adventurism or prestige investments. It’s almost as if our life is not shaped by us at all.

The most adverse consequence of so many changes is our decreasing sense of individual responsibility for the financing of our career. We expect too much from the state and from society. We do not make savings for our old age which we could spend on living expenses, because we expect the state to take care of us. We do not raise (enough) children to support us at the final stage of our life because it is costly and unaffordable. We will live off our pension and buy services, once provided by children, on the market. However, when it comes to child-rearing, we expect (and this is not to suggest that we do so without a reason) the state to finance young people’s education, secure their employment and help them establish their home. We also expect the state to “chip-in”

with child-rearing costs. Moreover, we expect it to take care of us when we cannot find a job and finance our own livelihood. There used to be insurance-based institutional foundations to secure all that, but public thinking now seems to be departing from those foundations. And it can certainly do so. In a democratic election the majority is willing to support a leadership that broadens such rights. Today, the state has an “obligation” to provide for its citizens. So much so that it is almost beyond comprehension if anyone reminds us that it used to be otherwise. And it is possible that it will change again with time.

### Lifelong financial planning

However, it is increasingly clear today that socio-economic changes do not hold out promises of a calm and carefree future.

No one has expressed this problem more eloquently than the great Hungarian poet, Endre Ady, at the beginning of the last century, who wrote: “Because my life turns on a dice and falls like a shadow.” Facing the future fills us with fear. That is why large segments of the population choose to stick their heads in the sand, pretending not to see the problem. They live for today hoping that the state will find some solution. Whereas we should take care of our future and how to finance it. We must plan our future, if you like, financially.

It is not easy to put this into words and explain what exactly we mean by lifelong financial planning; nevertheless, that is exactly what we need so we can deal with future challenges. Let us try and explore the heart of the matter.

The large distribution systems and their institutions that developed with the increasing role of the state have by today become somewhat anachronistic. The circumstances on which they were based initially have since changed.

The population pyramid is slowly turning upside down. Instead of many children and few elderly citizens there are now masses of old people and few children. A structurally distorted society imposes a growing burden of provision on the active working-age population. Solidarity-based insurance systems are becoming impossible to sustain as the risk pool, defined in accordance with the earlier situation, is now shrinking. The former systems used to be based on the solidarity of the working community and the employers; however, as a result of globalisation the situation is changing. As a third player, it is not only the state that intervenes in the bargaining process by way of regulation, but also international markets through the free movement of goods, capital and labour. As liberalisation has made possible the free flow of goods globally, companies that pay higher wages in industrialised countries now face huge competition from products manufactured at low wage costs but with practically the same technology. The free flow of capital allowed access to resources available abroad and hence the importation of technology into emerging economies. The outsourcing moves of developed countries have also contributed to the emerging economies’ increasing focus on export-driven production. There are two reasons for the latter: first, the obligation to repay foreign currency loans forces the economies to obtain foreign currency and, secondly, the domestic markets are limited. Why? Because wages are low and in many places, for example in China, citizens are desperate to make savings even from those amounts. Therefore, the expansion of domestic consumption is not sufficiently dynamic. As a consequence, this clearly creates a downward pressure on wages and wage-related benefits in developed countries. These moves in turn may result in reduced social services both in the short run and certainly

in the long term. Wherever even elementary levels of social protection have not been established yet, which is particularly true of the poorest developing countries, its creation will slow down. The funding of earlier institutions and systems is now being jeopardised. Radical reforms and paradigm shifts will likely be necessary in many respects.

## INTERNATIONAL OUTLOOK

In the modern world, some OECD countries show signs of attempting to even out consumption at various life cycles and life situations through social protection; however, from a global perspective, significant global disparities will persist.

The documents of international organisations do not approach the task as a financial issue, whereas, practically speaking, that is exactly what it is. Declarations and analyses focus on the aspects of social protection and humanity. Although it is a noble sentiment, the fact is that the income and consumption situation of those not in employment cannot be ignored from an economic aspect either, as it will ultimately have implications for the interests of capital as well. This idea was clearly put forward almost 20 years ago by the doyen of Hungarian economists in a publication raising deep-cutting ideas: “It is not only a moral obligation for modern society but is also in its economic interest to support the entire population.” (Kopátsy, 1996, p. 325)

The oldest international organisation, the ILO (International Labour Organisation), was founded in 1919. It is older than the League of Nations, the UN, the IMF or the World Bank. The ILO is a tripartite institution composed of employers, employees and the representatives of governments. There was no international document outlining the rights and obligations of these three actors, except perhaps *Rerum*

*Novarum*, Pope *Leo XIII's* encyclical on the economic and social teaching issued in 1891, which laid down the position of the Catholic Church as universally applicable. In the ILO, it was the political representatives of nations who put forward their comprehensive views from a human rights aspect. Let us now have a look at the ILO's 2014 report on social protection in the different countries of the world.

The report concludes that only 27 per cent of the total global population enjoys access to some level of social security systems throughout their life cycles. 73 per cent must solve their problems on their own, practically without any help from society. In 2012, the ILO adopted a document (a set of recommendations) containing the consensus of employer and employee organisations of 185 countries on the basic principles of minimum social protection. It was by no accident since these rights had been cut by the 2008 crisis even in developed countries where there had been an extensive social safety net in the previous century. (ILO, 2014, 2014–2015)

It is not easy to determine the level of social protection for childhood, which would be considered globally as fair and justified. This is an area where the backlog is the greatest, especially in developed countries richly blessed with children. Every day 18,000 children die in the world predominantly due to the lack of social protection.

This is not an easy issue to address. Naturally, on the basis of humanity every child born is valuable, but from the aspect of financial and economic sustainability it poses a huge problem where no sufficient financial resources are available either to families or to the state to afford children. International aid is of little help in this situation. In November 2014, the United Nations officially declared that it was forced to reduce food ration sizes by half due to a shortage of funding needed

to ensure aid transports as before. However, overpopulation is a problem for which a specific solution is yet to be proposed, concerning the entirety of developing countries. According to every study in this field, the civilisation impacts of the higher level of development, including higher educational standards, will lead to a falling number of children in these countries, but that is a highly time-consuming and capital-intensive process.

The fact is that today there are 108 countries with some form of social safety net with regard to children, but in 73 countries there are no social protection measures whatsoever to support them. The regulatory setting should protect children effectively from the exploitation of child labour. Public spending should be used finance potential measures to facilitate children's access to nutrition, care, education and healthcare. On average, governments allocate 0.4 per cent of GDP to child and family benefits, ranging from 2 per cent in Western Europe to 0.2 per cent in the poorest countries. Unfortunately, as a result of the austerity measures child poverty increased in Europe also (in 19 of the 27 countries) between 2007 and 2012, even if it is a regionally and temporally determined category. (ILO, 2014)

Even the working age population is unable to earn sufficient income. Either because they do not have access to jobs or become unable to work for other reasons (e.g. due to childbirth in the case of women). That is why social benefits are required even in the case of working age people in order to ensure income security.

Worldwide, public social protection expenditure, targeting this substantial segment of society, does not exceed spending on those in the childhood life cycle, amounting to only 2.3 per cent of GDP. Naturally, within this overall figure, regional variations are significant, ranging from less than 0.5 per cent

in Africa to close to 6 per cent (5.9 per cent to be precise) in Western European countries.

The primary source of livelihood is earned income, but even in these age groups there are extraordinary life situations, such as motherhood, illness, disability and most of all unemployment. Obviously, more sophisticated social safety nets are in place in developed countries and it is the unemployment benefit system in Western Europe that substantially adds to spending relative to GDP. However, only 28 per cent of the labour force worldwide is potentially eligible for benefits either contributory or non-contributory. The remaining high number and high percentage of employees will remain practically unprotected should they lose their jobs. That is an increased threat in a crisis period. Within this overall figure, regional differences are considerable: while 80 per cent of the labour force is so covered in Europe, only 38 per cent in Latin America, 21 per cent in the Middle East, 17 per cent in Asia and 8 per cent in Africa. Only 12 per cent of unemployed workers worldwide actually receive unemployment benefits. Again regional differences are large: ranging from 64 per cent in Western Europe to just over 7 per cent in Asia, 5 per cent in Latin America and only 3 per cent in the Middle East and Africa. Protection means access to some kind of work for the rest. A good example is India's Mahatma Gandhi National Employment Guarantee Scheme), which provides a form of unemployment protection by guaranteeing 100 days of public employment to poor rural households. There is nothing new under the sun. Any work is better than doing nothing. Benefits are costly and financed from our taxes and thus it is wiser to provide work instead of benefits. Unemployment increases the rate of deviance in a given country and undermines the overall health status of the population. Therefore, in

countries where universal access to healthcare services is provided, these healthcare costs will in turn create a burden on the community and are incurred because deviance and illnesses are clearly a consequence of unemployment. So we are better off reducing it by providing employment in addition to jobs created by the profit-oriented business sector. (Kopátsy, 1996, p. 324–326)

Maternity benefits and healthcare services for pregnant women are special issues because they are gender-specific. Only 28 per cent of women in employment worldwide are protected through some form of maternity cash benefits. Although in principle it should cover 40 per cent of women, the actual coverage is that much lower, due to the ineffectiveness of implementation. In practice, women after childbirth must soon re-enter gainful employment subject to legal regulations. The favourable conditions Hungary provides to mothers is exemplary.

As a side remark, unemployment affects not only poorly developed countries but also poses increasing challenges in developed countries. The underlying issue is the enormous technological and social change, in addition to challenges of globalisation affecting competitiveness, whereby there is a decreasing need for employing live labour and jobs are only available to highly qualified people. However, adjustment to this situation will take decades.

Finally, let us come to the issue of old age income security which poses an increasing challenge.

Although many international documents declare the rights to ageing with dignity, in practice 48 per cent of elderly people do not have any institutionalised financial guarantees for that. Those who do receive a pension, pension levels are not always adequate to live on. As a result, the majority of people over the retirement age are forced to continue

working as long as they can – often badly paid. The situation is likely to worsen with time. Especially because the actual extent of coverage will decrease further. Under existing laws and regulations, only 42 per cent of people of working age today can expect to receive social security pensions.

The 2008 crisis forced countries to cut public spending. It also had an impact on pension systems. Old age security has been undermined by several changes, including raising the retirement age, reducing benefits and increasing contribution rates. Future pensioners are likely to receive lower pensions in at least 14 countries of Europe. It is important to note that a number of countries, including Bolivia, Chile, Hungary, Kazakhstan and Poland, have reversed the earlier privatizations of their pension systems and renationalised them in order to ease the pressure on their budget. Naturally, this move will increase the pressure on the budget by promising larger benefits in the future. It has become clear that a much deeper and more radical transformation is needed in the system career financing than just some technical changes to compulsory private pension funds, which basically ignored the rightful needs of the generation of today's pensioners. After all, incoming contributions are spent on current benefit payments in the pay-as-you-go systems. Some of the contributions were absorbed by private pension funds, passing the benefit burden onto the central budget, which was basically unable to provide coverage by cutting and restructuring current spending. And this was not only the case in Hungary, as the example shows.

Responding to the financial crisis has further exacerbated the problem, because in many countries consolidation programmes were accompanied by fiscal austerity. Economics says that spending must be increased in order to avoid recession, but that has added

to public debt in many countries. Europe is trying to curb this and urge countries to observe the Maastricht deficit and debt levels. Societies, however, find it hard to accept that current spending must be curtailed in order to ensure future livelihood. It is not in the interest of the business sector either, at least not in the short run; they emphasise the need for Keynesian solutions from the state in order to avoid a slump by boosting demand at any cost. This short-termism will not provide a radical solution to the problem. Spending cuts will be inevitable. In the IMF's estimate, in one-fifth of countries, governments may be cutting their budgets to pre-crisis levels.

However, there are also good examples demonstrating significant positive changes in certain developing countries where pension system coverage has been extended. Bolivia is one example which increased the proportion of older persons receiving a pension by 10 percentage points to 90.5 per cent, thanks to its Renta Dignidad programme. In the poorest countries, such as Timor, Swaziland and also Thailand, pension coverage for the elderly has been widely increased from the current 1–2 per cent to 60–80 per cent. Most of all, however, the case of China merits special mention.

### China and the pension system

As it is widely known, China controlled its explosive population growth by drastic measures at the beginning of the Deng Xiaoping era, signalling political change. The measures introduced over 30 years ago, whereby normally no more than one child per family was allowed, has resulted in a drastic re-segmentation of society's age structure. As a consequence, the Chinese population has aged substantially. The traditional Confucian model, based on the solidarity of large families,

became unstable and the responsibility of caring for a large number of elderly people created an increasing burden on the shrinking working age population. However, since the communist practice to oblige companies to provide for their former workers for a lifetime no longer survived in private businesses and a solution had to be found to the problem.

In truth, low wages by international standards and the absence of contribution obligations meant a favourable cost position for Chinese businessmen allowing a marked competitive edge in international markets for several decades. (Botos, ed., 2009)

Formerly only two institutional mechanisms for income security in old age existed in China: one for urban workers, based on social insurance principles, and one for civil servants, based on the employer's liability approach. Together, they covered only about 23 per cent of the population aged 15 and above. Provision for elderly people in rural areas became very problematic, as many young people left for the cities which created a huge distance between the population of the coast line and that of mainland China. As some of the children were girls, the continuation of rural small holdings also became questionable. That was why the birth of two children was allowed in exceptional cases in rural families if the first child was a girl. New pension laws introduced two new systems in 2009 and 2011. Opting into both systems was voluntary. To encourage people to join, a number of measures were introduced, including contribution subsidies and immediate pension payments to the elderly parents of adults registered with a rural pension scheme.

Pensions consist of two components: a social pension paid by the Government from its revenues, and an individual savings account pension financed jointly by contributions from the insured persons, collective entities (if any) and the Government. A minimum

level is set for the social pension, which can be higher if local governments are able to fund it. This explains regional disparities. A minimum level of subsidy from the Government is fixed, and personal contribution scales are established to allow each of the insured to choose the level of contribution in exchange for future pension payments. At the end of 2013, 850 million people, nearly 75 per cent of the population aged 15 and above, were covered under the schemes. By its sheer size, this has probably been the most important positive change in the 2008–2014 period. Essential expansion has also been made within the pension system for rural-to-urban migrant workers (260 million). Thereby, four different schemes were used in China, which have been further rationalised (in 2014), according to information by the ILO. The first two systems were merged; the portability of pension entitlements was improved; and employers' liability for civil servants was converted into a social insurance pension scheme, i.e. they are now also required to pay contributions. (Ringen and Ngok, 2013; ISSA Country Report Database, ILO, World Social Protection Report, 2014–2015)

## FINANCING HEALTHCARE SPENDING

One of the most critical problems of old age is soaring healthcare spending. However, financing healthcare costs is a challenging issue at any age. It is certainly a bigger problem in old age. In this life cycle, a multitude of problems arise and that is when people would need healthcare services the most.

In low-income countries, 90 per cent of the population has no or very limited access to healthcare services. This proportion is 39 per cent on a global level.

In terms of the provision of healthcare services, Western Europe enjoys nearly 100 per

cent coverage. Its citizens are covered by some form of state or private national healthcare system (99.7 per cent). In Eastern Europe, this figure is also high at 91.6 per cent. It is only 85 per cent in the United States, 81 per cent in Latin America, around 25 per cent in Africa and 58 per cent in Asia (37 per cent without China).

In 44 countries across the world 80 per cent of the inhabitants remain without healthcare coverage. In addition to smaller developing countries, this group includes India, which represents a large population size. (ILO, 2014)

Even in countries, where, in principle, there would be an opportunity to use healthcare services, there is often a deficit of health workers, or the services are either not appropriate or unaffordable. The two are naturally interconnected to some extent as the provision of services requires human resources, but healthcare costs are also increasingly higher.

Both pharmaceutical costs and the use of state-of-the-art diagnostic equipment impose a high cost burden on the financier, be it the state or a private individual. As far as affordable services are concerned, the high level of out of pocket (OOP) expenses is an important issue.

Obviously, in countries where the healthcare system does not cover a large part of the population, expenses must be funded out of pocket. The percentage of OOP financing is very high in developing countries. Its level increases with age. This is especially a great problem for the elderly female population. As OOP financing is typical of the poorest countries, it means that a high number of people are excluded from effective coverage. They simply cannot afford it. From a global perspective, public spending on healthcare is roughly at the level of private spending relative to the GDP.

With regard to human resources, in the ILO's estimate on a global level over 10 million healthcare workers would be needed in order



to provide appropriate care for those in need. In Haiti and Senegal, as many as 10,000 people have to rely on services provided by 5 health workers, while in Finland this figure is 269. An example: the relatively high maternal mortality ratio (37.6 deaths per 10,000 live births) in low income countries is often directly related to gaps in the availability of skilled health workers, particularly midwives. As a result of funding shortages, even those who would be suitable for the job leave these developing countries. At the global level, health-worker migration from poorer to richer countries is constantly increasing. Between 2007 and 2012 more than 230,000 migrant health workers took up job opportunities in health-care services in the United States. A similar problem can be seen within the European Union. (ILO, 2014)

It is a well-known fact that the training of doctors is a costly investment. Obviously, the issue can be linked to the funding of education, especially in developed countries. If fiscal consolidation programmes curtail spending on healthcare systems and education, an increasing portion of costs will be borne by the patients themselves. That, however, will increase the risk of poverty, especially in the case of the elderly. Moreover, health workers also migrate from new EU countries, providing much lower income, to the old member states. Hungary is clearly on the receiving end of this trend. It is clear that Eastern Europe with its much lower level of economic development cannot support the healthcare systems of Western European countries by putting qualified personnel at their disposal free of charge. It is one of those anomalies behind catchy slogans like the free flow of production factors which are ill-considered and extremely disadvantageous for less developed countries. Similarly to the situation whereby the contributions of persons working abroad are missing from the pension funds of the countries of origin due to

pension system differences. That may not pose a problem to a country where contribution payments are not immediately transferred to the benefit claimants' accounts, but in practice it is always the host country that benefits from this system. It's true that this will be the country to pay pensions for the time spent there LATER, but what about those who do not have that money NOW due to a decrease in contributions paid into the pension fund? Moreover, the EU is not willing to acknowledge the problem. If deficits that increased due to this anomaly did not have to be included in the Maastricht debts, it would be possible to handle the issue with a more long-term approach and in consideration of the EU as a whole – at least from this aspect. Otherwise the impact of “brain drain” is certainly disadvantageous for the country of origin. Just to mention the doctors; the burden of disproportionate training costs would certainly prevail. Not to mention deficits in healthcare at home. What would the EU bureaucracy say to an internal regulation that would oblige those wanting to leave to pay these costs? The argument of the violation of the free movement principle would immediately be brought up in response. (Only when they need migrants. But they tend to be much less difficult when it comes to restrictions on unwanted immigration.) The issue is far from being resolved, with not even a hope for agreement between the countries so far.

There is another issue that deserves attention: elderly care. This is not specifically a healthcare issue, only to an extent. In the ageing world where elderly people remain without family support there is a need for elderly care. Care personnel needs to have minimum healthcare training as the elderly struggle with smaller or bigger illnesses. Today, small families and even single households have become dominant in developed countries. Elderly people must purchase care. The lack of nurses, especially female nurses, has resulted in an ever-

increasing pull of labour from developing countries into developed countries. Often the wages and social security coverage of caregivers in recipient countries are insufficient. The ILO study draws attention to the global crisis of the care economy. (ILO 2014–2015, p. 80) Developing countries are experimenting with voluntary caregiver networks and self-help groups. In China, legislation has been implemented that imposes on young adults the responsibility to provide the care their parents need, under threat of jail if they do not. Only few countries have implemented specific schemes providing benefits for long-term care. They include Sweden, Denmark and Norway. In Germany, Japan, the Netherlands and Taiwan, they are using social insurance schemes to cover related costs. Although this expenditure remains very low compared to expenditure on health and old-age pensions, European Union projections foresee at least a doubling of current expenditure levels within a few decades. Given the limited availability of public resources, these schemes will be characterised by a stronger reliance on co-payments from private sources. According to research, in the EU, OOP on long-term care amounts on average to 9.6 per cent of older persons' household income and can be as much as 25 per cent. (Scheil-Adlung and Bonan, 2012). Those aged 80 and over, face OOP up to seven times higher. It should be noted that statistics on OOP include only those who have effective access to such services.

## LOOKING FOR A WAY OUT

It is clear that mankind has reached a turning point. No longer care about the destiny of future generations can be ignored. Not only the destiny of future generations, but also our own lives and future must be considered. Obviously, different groups of countries face

different tasks. Developing countries cannot be advised to follow the practice of developed countries as it has already brought the earth to the brink of ecological unsustainability. While in line with different cultural traditions, living standards must certainly be raised higher than cultural standards. We can only expect societies where the cultural standard, especially women's education level, rises to use modern birth control methods.. Cultural and religious factors must also be taken into account. The optimism arising from extending the scope of international organisations established after World War II has by now dissipated due to shrinking resources.

However, in the developed world and especially within the European Union, there is a need for a paradigm shift in social and economic policy. "The revolution of unleashed expectations" must be stopped. (Club of Rome founder Aurelio Peccei used this expression over a quarter of a century ago in his book entitled 'One hundred pages for the future'.)

In accordance with the title of this paper, lifelong financial planning must be put into practice both on the micro and the macro levels. At the macro level, efforts must be made to create a society with a more favourable age structure. The only way to do so is to encourage the birth of younger generations. However, this effort must be linked with making the pension system fairer. It is now widely recognised that both citizens willing or not willing to have children need the birth of future generations. When a given generation enters the retirement age, the subsequent younger generations and working age cohort will generate the revenue from which the older generation will have its entitlements. In this sense and in *Rudolf Andorka's* words, 'the child is a public good'.

Having children is a private matter. Nobody can be talked into to. Fortunately, a lot of people, especially women, have a healthy desire

for a child and on average Hungarian citizens plan to have at least two children. Yet, many of these children are not born for various reasons. It is the responsibility of politics to explore and eliminate such reasons. However, it must be made clear that raising a child is a major investment. It has ongoing costs for decades, the larger part of which is demonstrably undertaken by the parents, notwithstanding any direct or indirect support from the state. As the entire society needs generations of educated children who are capable of work, the pension system should recognise child-rearing costs as a kind of contribution payment. The time does not appear to be ripe for moving away from work-based pension systems, even though employment figures indicate that not everybody is able to find employment even now. Therefore, the basis of the system must be earned income. This could be supplemented by a system of bonus scores available per child, which in practice would mean what is proposed by some experts, namely that children should provide for their parents. For, this is what would happen in practice, albeit not through personal, but through intergenerational relationships. This would incorporate an element of solidarity, whereby naturally every person who saves money for pension by paying a contribution to their own pension account will be entitled to a pension even if they chose not to or were unable to have children. However, the system would recognise the extra spending by those who decide to raise children. The basis for this would be supplementary budgetary payments into the pension fund, which would be enabled by the tax payment capacity of the next generation.

What has to be reckoned with, though, is that contributions from generations that have been lost or have migrated will leave a gap in the system. If we are unsuccessful in changing the age structure, which will not happen in the short run, the amount of pension in

ageing societies will certainly be lower for today's young generations. A smaller amount of contributions will have to be shared among a larger number of beneficiaries: it is pure mathematics. Not because some political power will "take it away". It will simply not be generated. Therefore, a pension system must be promoted that incorporates the above mentioned fairness criterion for the upcoming generations. This would refer to women of childbearing age, i.e. aged under 35 to 40 years, who may be able to adjust to the parameters of the system. What must be clearly understood is that the matter of private savings must be approached with a radically different attitude. Long-term savings should not be started tomorrow but they should already have been started yesterday – by everyone who is capable of doing so.

A great problem is that in the modern world there is a high number of people living from one day to the next. Hope must be held out for productivity and thus for an increase in the average wage level. Earnings, however, should not be spent immediately on consumption but on saving up for our security in old age. Private savings must certainly be encouraged by the state, as they will be the foundation of the long-term sustainability of society and economy. No doubt, spending cuts will reduce current growth indicators. But that is the only way to even out consumption by individuals during their lifetime. Extending the term of private savings could create sources of financing investments that will take a longer time to recover but are necessary. That is the only way to lay the foundations for real and conceptually sound industrial and economic policy.

All that will require sustained confidence in society's institutions and, similarly, the sustained value of the currency. Who would save up if they did not get the value they have saved up in the long run? Ways to achieve all that goes beyond the scope of this paper.

---

LITERATURE

- BOTOS, K. ed. (2009): *Idősödés és globalizáció (Ageing and Globalisation)*. Tarsoly kiadó. Budapest 59BDD3738C1257BE30053EBAC?OpenDocument (20 April 2014)
- KOPÁTSY S. (1996): *A mi XX. századunk (Our 20th Century)*. Belvárosi Könyvkiadó. Budapest
- KOPÁTSY S.(2011): *Új közgazdaságtan (New Economics)*. Akadémiai Kiadó. Budapest
- PECCEI, A. (1984): *Kezünkben a jövő (One Hundred Pages for the Future)*. Gondolat kiadó, Budapest
- RINGEN, S. – NGOK, K. (2013): What Kind of Welfare State is Emerging in China? UNRISD Working Papers No. 2013–2. Online: <http://www.unrisd.org/80256B3CO05BCCF9/serch/28BCEDF>
- SCHEIL-ADLUNG, X. – BONAN, J. (2012): Can the European Elderly Afford the Financial Burden of Health and Long Term Care? *Assessing Impact and Policy Implications*
- ILO (2014): World Social Protection Report 2014–15, Online: [http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS\\_245131/lang-en/index.htm](http://www.ilo.org/global/research/global-reports/world-social-security-report/2014/WCMS_245131/lang-en/index.htm) (20 April 2014)
- ILO (2014): Extension of Social Security, ESS Paper No. 31, Geneva, Online: [Httpwww.ilo.org/gimi/gess/SchowResource Action?resourceid=30228](Httpwww.ilo.org/gimi/gess/SchowResourceAction?resourceid=30228) (20 April 2014)