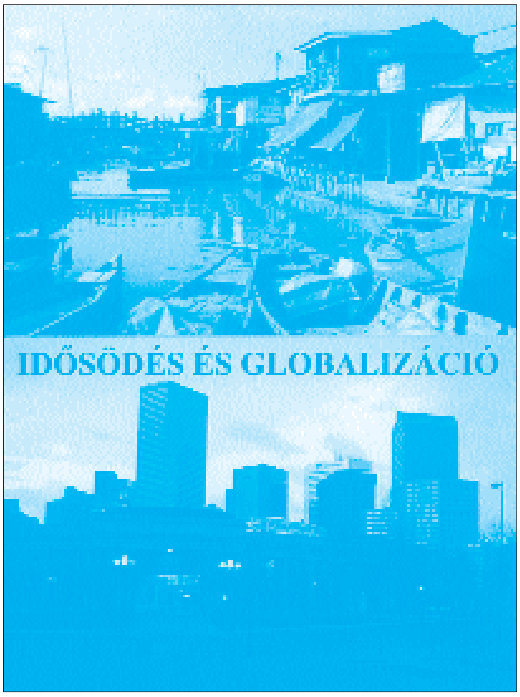
Katalin Botos (editor)

Population ageing and globalisation

International financial imbalance



TARSOLY KIADÓ, BUDAPEST, 2009

Ms. Katalin Botos and fellow researchers selected a topic of particular significance as the focus of their study. The population of the world is ageing: More and more people are reaching a very high age, and a decreasing number of youths are having children. This is typical mostly in the developed world, but some of the emerging countries are also expected to face a similar situation. Since the ratio of working-age population is declining, a smaller number of employees are responsible for providing for a strata of retirees that is growing in relative size. One of the primary and most spectacular consequences of ageing is that pension systems, often looking back fifty or even a hundred years of operation, become unsustainable. State-run pension regimes become deficit-makers, creating a political twist in a demographic-related situation. When, because of that, pension income is diverted to be hedged by capital, dramatic changes are to be anticipated in financial and equity markets, and this does not necessarily represent a solution to demographic risks. Since the level of competitiveness in every country is directly impacted by the extent of wage costs, any increase in social security contributions will not be a problem-free matter. This is the topic of the book.

Ms. Botos's study can be divided into two major parts, one that compares pension systems, and another one analysing geographic regions and countries. Her work takes a global perspective to the phenomenon of ageing society, and then, since the study is also meant to be read by domestic audience as well, Hungary's position is discussed separately.

■ The first analysis after the preamble underlines the importance of pension systems within social security regimes and discusses possibilities of financing them in changed demographic and labour market situations as well as in respect of competition between countries. In light of international experience, the role of families is studied with special focus since they play a pivotal role in the fight against population ageing. Supporting the creation and sustainability of families has a positive impact not only on persons' eagerness to have children, but is also key to the education level of children and, hence, their future productivity. Appropriate family background can support women's inclination to work, and also plays a role in providing for the elderly. This train of thought about the role of family is in alignment with the message of a study released on the homepage of the World Bank: Having children could be a real alternative to high pensions and high savings in equity markets (Galasso et al, 2008). In today's Hungary – where the level of distributive pensions has an upper limit due to an ageing population and a high savings ratio is hindered by low productivity – having children could be one of the most important ways leading out of the demographic trap.

The other critical component of the crisis of ageing society in Hungary is a low level of willingness to work. The book analyses correlations between willingness to work (supply side of labour market) and job creation and innovation (demand side of labour market). They have direct impact on work income and, hence, savings opportunities, including income at senior age. The book describes the financeability of healthcare spending as another problem that stems from population ageing. Expanding life expectancy is a problem when the number of years spent in illness also increases. This could only be managed and financed through a comprehensive health prevention strategy. The study goes on to discuss global financial imbalance before addressing the population ageing situation in individual countries. Since the chapter mainly focuses on the fact that China has been financing United States debt since the millennium, it provides basis to comprehend the financial crisis that started in 2008. Another author discusses ageing problems within the European Union, which, similarly to the United States, has a great significance to Hungary's financial stability and, consequently, pension-purpose savings (Bauer et al, 2004).

Part two of the book contains regional analyses and country studies, putting into perspective the problems outlined previously. Sections analysing Eastern Europe are especially important, because these countries are either entirely overlooked by global (western) comparative analyses (Clark and Whiteside, 2003; or Ebbinghaus, 2006) or are just mentioned as an example (Holzmann and Stiglitz, 2001). The studies clearly indicate that Hungary (and Eastern Europe) is struggling with serious problems. Hungary does not own huge and cheap production capacities like China, or demographic reserves like India; is not a champion of productivity like Germany, nor does it have reserves of oil and other commodities like Russia does. Any one of those factors could mean a foothold against the challenges presented by population ageing in Hungary. In lack of them, however, the authors are cautious about Hungary, describing two propositions in detail. One of them votes in favour of social security reforms that contain impacts on demography, encouraging families to have children and politics to implement family-friendly policies. The other suggestion is related to the first one: On the back of the dynamic pension system developed after World War II. in Germany, and also in line with a plan devised by *Wilfrid Schreiber* with an even higher level of solidarity, it propagates that the most important task in Hungary today is to create a society that is based on strong moral standards and to reinforce the distributive pension system. This is not a rare view, the Dutchman *Engelen (*2003) also shares it, saying market-based pension systems are not free of demographic risks, nor can the efficiency of equity market solution and their risks (financial and moral) be neglected. A radically different view is represented by *Clark*, the Australian researcher out of Oxford, who says "there's no escaping from the supremacy of capital" (Clark, 2003, page 1340), and return on equity invested in developing countries could be the main source of growth in Hungary as well. In an interview in October 2009, Clark suggested Hungary should encourage a powerful boost in pension-purpose (private) savings not only to fight old-age poverty but also to fend off a decline in available macro-level savings. The relative increase in the number of retirees means consuming the capital that is available, which presents problems for both the corporate sector and households (Börsch-Supan et al, 2003). The study prefers Schreiber's (and Engelen's) plan, and does not support or scowl at the importance of the capital-hedged system. Instead, the book provides a starting point for discussions about it, which will hopefully foster additional studies.

■ *Summary:* Ms. Katalin Botos and co-authors compiled a useful reading for Hungarian researchers, policy markers, and other interested parties. It is important that additional questions should arise about population ageing and that these issues are thought over in a joint effort. This paper is a fundamental book for those engaged in the future of economics, political sciences, or even medicine, sociology, and the position of minorities. The fact that the Hungarian population is ageing is an important factor for almost all the facets of science; year after year there are more and more senior people around us, barely any children are seen. Senior citizens cannot save, resulting in a decline of assets; bank deposits and available domestic capital are anticipated to shrink. Actual action plans are needed with all decision-making bodies in Hungary involved. Job creation is the first step, but there still are a multitude of questions in the long run that require answers. Plans spanning 30 or 50 years are needed and they must be implemented pragmatically and consistently.

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