

## Articles about the Pension System

### **Economic Review [Közgazdasági Szemle]:**

Social Insurance Systems as Public Goods *by József Mészáros*, March of 2005

Population, Employment, Pension *by Mária Augusztinovics*, May of 2005

What is/will be the Situation of Private Pension Services? *by János Stahl*, June of 2005

Are Social Insurance Pension Systems Public Goods? *by György Németh*, June of 2005

### **Foreign Economy [Külgazdaság]:**

Essay about Pension, Pension Systems and Pension Reform, Part I and II, *by György Németh*, issues 1 and 2, 2003

Mini Opinion Poll about the Pension System, Answers *by Mária Augusztinovics, Péter Ákos Bod, Ágnes Matits, Péter Mihályi and András Simonovits*, issues 7 and 8, 2003

Postscript – but Not the Final Words – to the Debate on Pensions *by György Németh*, issue 1, 2004

### **Statistical Review [Statisztikai Szemle]:**

Successful Pension Reform? *by Farkas Hamar*, issue 12, 2003

### **Company Management [Cégvezetés]:**

By the Time We Grow Old... World Pension Systems in Crisis *by György Németh*, March of 2004

Public finance reforms, that are generally considered indispensable by economists, have not been carried out since the regime change. Possibly the only significant progress made has been the initiation of the pension reform by the introduction of the second pillar of the pension system. Even this step has been accompanied by loud disputes, doubts and criticism. Many experts regard the private pension system as a success story, – for example, *Farkas Hamar* in his article published in the *Statistical Review* in December 2003 – but its real test will take place in the near future when the first payments will be made.

Debates on the problems associated with pensions, and in a broader sense, the solution of old-age income security, and the development of the pension system do not cease. Their new phase is reflected in a series of articles in the *Economic Review* this year.

First, we can mention *József Mészáros*' literature from a theoretical – more exactly, game theoretical – perspective (called, “Social Insurance Systems as Public Goods”) in the March issue of the review. In this article, the author proves four statements in a somewhat formal theoretical framework, but he also pays utmost

attention verifying their authenticity. In our opinion, he proves his point in three out of the four cases without a doubt. However, we consider specifically the first thesis disputable. According to the author, the decrease in childbirths is inevitable in case of a pay-as-you-go (mandatory contributions and central distribution) pension system. In this surprising context he establishes a relationship between two reasons; on one hand, he accepts the theory that parents intend to secure support for their old-age by having children; on the other, he agrees that in a pay-as-you-go system entitlement to and the amount of pension is independent from the number of children raised by a person. *József Mészáros* just references the other widely-known approach – which I consider as (fortunately) more typical in our time – according to which the incentive for having children is simply the value of the children themselves. We can fully agree with the rest of his statements, such as the obvious and lack of confidence in the Hungarian pension system, which incite minimizing contributions to the pension fund; or that the flexibility of the pension regulation tempts politicians to make un-

founded promises in respect to pensions in order to maximize their votes. Finally, that the same objective results in the postponement of long-term reforms. Of course, these statements could be considered as being correct even without references to game theory and *Selten's* thesis.

New articles were prompted by the *debate under the title of "Population, Employment and Pension"* that was organized by the editors of the periodical and the Professorate of Comparable Economics of the Faculty of Economics of Corvinus University on February 10, 2005. The opening speech of the debate was presented by *Mária Augusztinovics*; the study on which she based her speech on and a description of the debate were published in the May 2005 issue of the periodical. The lecture by *Mária Augusztinovics* breaks down the topic into two parts. First, she introduces the common demographic approach with arguments against it, and then she examines the characteristics of the Hungarian pension system with its numerous contradictions and unresolved questions. She makes mature, significant and apparently undisputable statements in both parts. When outlining demographic changes, she points out that the lengthening of life does not only cause the ageing of society, but also an increase in the number of young people as the expansion of higher education postpones the age of entering the labor force and having children. In short, the period of time when a person is productive shortens. However, the author considers the changes in employment more crucial in respect to the origin and solution of the problems, not necessarily this demographic trend. She has a unique perspective on this as well. She divides employees into two groups in an innovative manner. The first group, "alpha," includes the lucky or permanently employed, and the second group, "beta," includes all others who only find temporary jobs or are permanently compelled from the labor market. The most significant factor here is the employment level. In case if it is diminishing "the employment density of "betas" will necessarily deteriorate and the difference between the incomes of "alphas" and "betas" will increase in a frightening pace." (Page 441) All these speak against a fully insured pension system as it would result in pensions near starvation for a significant segment of the population. Therefore, *Mária*

*Augusztinovics* takes a strong stand for a base pension and enforcing the principle of solidarity. The importance of her statements is confirmed by an also unusual thesis, according to which the two pillars of our pension system, the social insurance and private pension systems are essentially "twins. Both of them collect contributions from the (reported) wages and salaries of those employed (legally) and consequently, provide old-age pension – even though disproportionately – only for these employees." (Page 443) Eventually it means that after all both are based on the insurance principle of risk sharing and neither of them is related to the principle of solidarity.

During the extensive debate – summarized by *Katalin Szabó* – four co-references were stated. *Péter Ákos Bod* warned – among others – of the large role played by the grey-black sector in the workforce structure. In his opinion, voluntary contribution should get a much more significant part in social insurance. Demographer *László Hablicsek* called attention to the significant increase of life expectancy expected in Hungary. *János Köllő* explained the complexity of the answer to the question of "who supports who?" and then listed a few aspects for forecasting future changes in employment rate. Actuary *Agnes Matits* stated that the pension of the "alphas" always received priority consideration when decisions were made about the pension system. At the same time, she warned of premature judgment of the current mixed system in Hungary. In her co-reference she analyzed the factors on which a private pension relies on and the hidden intricacies of such factors. The debate-summarizing article provides information on seven comments as well as the replies given by the speaker and the co-referents.

In the June issue of the periodical, *János Stahl* examines legislative duties associated with the private pension system. He starts with discussion of the deficiencies of the current regulation and the amendments required for their correction, with special focus on the use of the so-called unisex mortality tables. Then, he offers mathematical programming models that could assist in further enhancing the legislative rules on private pension services.

In the July-August issue, *András Gömöri* comments on *József Mészáros'* article published in March. From the perspective of game theory,

he corrects the apparatus of concepts used in the article and their connections with statements made on the pension system.

A polemic article was also published in June. *György Németh* – whose writing published in the periodical “Company Management” in March that compares the Hungarian system with several foreign systems – provides comments on József Mészáros’ article. He has strong objections related to the conclusion of the thesis on having children. According to Németh, it has been verified exactly by the general pension system that parents’ pursuit for old-age security is not critical in respect to wanting children; this is only affected by valuing children for themselves. In his opinion, evading the payment of contribution is a logical strategy, because the pension system has still preserved its social origins, the distribution assisting low income employees. (In other words, this means that the winners will be those who appear to be having a low income). Here we get a complete program: “*This can be avoided by eliminating the redistributive elements of the pension system.*” (Page 611) Then in the footnote he says: “*Redistribution aimed at relieving or eliminating old-age poverty should be a part of the social welfare system. The so-called degression that makes redistribution possible will disappear from the Hungarian pension system – by “straightening out” the pension scale, eliminating the minimum pension – in the near future, as provided for by the prevailing regulation.*” (Same page, footnote No.12) Based on this same point of view, he agrees with Mészáros’ statement according to which pension systems have over-promised all over the World and the time of withdrawing the promises has arrived. In line with his program he states: “*I cannot imagine what argument could be used to refuse an offer that would make the amount of pensions dependent exclusively on the amount of contributions.*” (Page 612) And later on: “*The dilemma of the political class is no more than to what extent they should take the promises back from the various generations and move to-*

*wards the position making the amount of pensions dependent exclusively on the amount of contributions.*” (See same page)

Németh criticizes the system of definitions related to the pension system as well, stating that the pay-as-you-go versus capital-backed differentiation is not appropriate for describing the possible alternatives. In this, respect we call the readers’ attention to the two-part study published earlier by the same author in *Foreign Economy*. (Essay about Pension, Pension Systems and Pension Reform by *György Németh*; *Foreign Economy*, issues 1 and 2, 2003). The first part of this essay is specifically dedicated to clarifying definitions and to offer his views on them, supported with broad literary, theoretical, and econo-historical background. The second part of the study is essentially a criticism of the prevailing pension system, with special attention given to the measures of the 1997 pension reform. According to the writer, the most important measure was not the establishment of the second capital-backed pillar, but rather the hiding of a significant part of the implicit public debt behind the first pillar. The editors of *Foreign Economy* took a *mini poll* of several experts in reference to this study. (The replies were published in the 7<sup>th</sup> and 8<sup>th</sup> issues of 2003). From those experts who replied, *Péter Mihályi* entered into direct debate with *György Németh*. The rest of the experts asked – *Mária Augusztinovics, Péter Ákos Bod, Ágnes Matits, András Simonovits* – also answered from different perspectives and different approaches from those of *György Németh*. They addressed the questions on the political aspects of the pension debate, the usefulness of other countries’ experiences, the evaluation of the pension system and directions of change. We believe that re-reading these opinions can also be useful for providing a basis for the endless, restarted debate on one of the most important social, economic and political issues.

I. S.

## NOTE

- 1 It is to be noted that Erdős based the chapter of his book about the growth path of regime change in Hungary on an earlier study by Antal.