



Review of

# **SOCIOLOGY**

of the Hungarian Sociological Association

**2017/4**

**VOLUME 27.**

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The publication was supported by the Hungarian Academy of Sciences  
and the National Cultural Fund of Hungary



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Nemzeti Kulturális Alap

Language editor: Simon Milton

Design: Miklós Szalay

Layout: Melinda György

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ISSN 1216-2051

Printed by: Prime Rate Kft.

Address: 1044 Budapest, Megyeri út 53.

Managing director: Péter Tomcsányi

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# Changing family - changing solidarity?

## The phenomenon of family solidarity<sup>1</sup>

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Manuscript received: 8 June 2017.

Modified manuscript received: 5 October 2017.

Acceptance of manuscript for publication: 23 November 2017.

**Abstract:** The pluralisation of family forms significantly influences several aspects of family solidarity and the solidarity between generations. Its analysis is made difficult by its complexity: while values research into consensual and normative solidarity as well as the literature on the subject, deal with changes of emotional solidarity predominantly within theoretical frameworks, social and functional solidarity are examined through generational transfers. This paper attempts to provide an overview of the Hungarian conditions along the six interpretative dimensions elaborated by Vern L. Bengtson and Petrice S. Oyama with the help of earlier Hungarian empirical findings. The paper does not offer new empirical results; its primary achievement is being to first to approach the phenomenon of family solidarity with all its ramifications in Hungary in an interdisciplinary context. The paper also attempts to reflect upon the fact that while family solidarity is undoubtedly a positive phenomenon at the level of the individual as well as that of the family (due to its role in protecting the self, identity, and supporting existential security), from a social point of view family and generational solidarity is a significant and increasingly dominant factor in regenerating social inequalities.

**Keywords:** family, solidarity, late modernity, inequality

### 1. Problems of family solidarity in late modernity

The concept of family solidarity is used naturally in public discourse, but also often in (family) sociological discourse: it is the attitude and integrational force inherently present in families that can be activated at any time which is maintained by the family – according to its functional definition. However, when examining the phenomenon more closely, this clarity is not so evident. Are we talking about intergenerational relations, or do we have to consider the context of family law? Is family solidarity a natural phenomenon, or is it of statutory origins? In other words, is it an entirely psychological relationship which evolves in certain interpersonal relationships when one individual takes responsibility for another through personal choice? Or is it an automatism deriving from (family) statuses and social norms?<sup>2</sup>

1 Writing of the present paper was made possible by funding from the College for Social Theory (TEK), Institute of Political History. Hereby I thank the members of TEK for their valuable comments, as well as all those colleagues who commented on an earlier version of the paper that was presented at the annual conference of the Hungarian Sociological Association in 2015 in Pécs.

2 Ideas about the notion of natural family unity are called “new family naturalism” in the Western literature on the subject (Théry 2007: 159).

It is clear that since the beginning of the 2008 crisis an increasing number of people have resorted to the idea of family solidarity,<sup>3</sup> as if there has been an increase in the demand for the *institution* of the family, in parallel with the disintegration of other social communities and the decline of trust in other institutions. It is a general conviction that strengthening family solidarity strengthens society itself, which derives from the old conception that the family is the fundamental “cell” of society, and if families are strong, so is society. According to this logic, the disintegration of families endangers the integration of society.<sup>4</sup> Changes in families cannot be entirely blamed on the spread of individualism or the self-fulfilling aspirations of women (like many think); these are all consequences of fundamental social changes such as women’s paid employment, prolonged life expectancy, and the problem of single-parent families – just as the family cannot be interpreted using the nineteenth and early twentieth-century gender framework, where females dominate the private sphere of life and males dominate the public sphere.<sup>5</sup>

It cannot be a coincidence that the idea of family solidarity that supplements social solidarity strengthens when the state fails to organize intergenerational transfers well (for instance, from the old to the young, or more specifically, to the young unemployed, or the other way round): the problem of an aging society, financing pensions and social care all involve major economic issues and interests – that are disguised by the naturalistic rhetoric of family solidarity.

Based on the determining tendencies of recent years, many have argued that generational solidarity has weakened, while others claim that it has strengthened (McChesney – Bengtson 1988, Silverstein et al. 1998, Vanhuyse 2014, Chauvel – Schröder 2014, Attias-Donfut 1995). Those who predicted a multiplicity of generational conflicts presupposed the intensifying perceptions of generational injustice, as a growing number of pensioners must be supported by a decreasing number of active employees. Many have warned of the growth of ageism: the number of very old people (above 85 years of age) is increasing, many of whom suffer from Alzheimer’s disease, are stroke patients, or have dementia, all of which conditions mean a burden both at the micro and macro level on the family and society. However, the younger, fitter elderly also find it difficult to find their place in societies dominated by digitalization and a cult of the young, to which they have considerable trouble adapting (Nelson 2011, Bengtson – Oyama 2007: 13, NCPOP 2009).

3 An excellent example is the discourse about parent care.

4 This way of thinking is not unprecedented amongst some representatives of sociology of the family in Hungary, who look at the family in the spirit of the functionalism of the 1940s-1950s, and see it as something that can only fulfil its social function based on strictly distinct and complementary family and gender roles, with a constant and stable interconnection of participants that lasts until death. This conviction is further strengthened by the fact that in Hungary families that operate according to traditional gender roles are the most stable (i.e. enduring), and children are more likely to be born to such families than in ones where people choose to live together outside marriage. However, in families where the woman does not work, there are fewer children (Pongráczné – S. Molnár 2011: 99).

5 In the meanwhile, defining the notion of the family is increasingly problematic. In my paper I use it in a broader sense; i.e. to mean those who are directly related, living in a long-term relationship, or taking on the responsibility of taking care of a child.

In contrast, more tools, coping strategies and mechanisms are becoming available to handle the issue of the growing number of elderly, while new norms are developing about their social (and not only economic) participation (Sabbagh – Vanhuyse 2014, Tornstam 2005, Barrow – Hillier 2014). Others approach the issue from the dimension of normative solidarity – in terms of reciprocity, altruism, self-interest, and children’s duties –, emphasizing the power of the former, and demonstrating that while the care of the elderly can be influenced by economic factors, childcare exists even in late modernity: still more is being invested in the young by the old, and this “generational altruism” may ease the tension between generations (Barro 1974, Becker 1974, Lowenstein 2007, Lambrecht 2005, Bengtson et al. 2003, Lee 2013, Gal – Gergely – Medgyesi 2011).

It is clear that welfare transfers strongly favour the elderly, even today. This fact supports the arguments of those for whom the predestination of intergenerational conflict has been an issue since the 1980s, and which led to the problem of and the debate about intergenerational justice (Artus 2010, Vanhuyse 2014, Chauvel – Schröder 2014, Attias-Donfut 1995).

In retrospect, it is clear where the analysts went wrong. The hypothesis of intergenerational conflict is based on macro data, whereas research demonstrates the persistent presence of generational and family solidarity: on a micro level, help finds its way from the older generation to the younger in the form of voluntary support (Marshall et al. 1993, Bengtson et al. 2002). It is the application of pension systems and welfare transfers to the retired that make it possible for the elderly to help their children when it is necessary, and for the former to participate in transfer relations based on the principle of reciprocity, which ultimately lead to more frequent between-family transfers (Lowenstein 2003, 2007, Lambrecht 2005, Wisensale 2013).

## 2. Applied analytical framework – the interdisciplinary perspectives of Bengtson and Oyama

The examination and interpretation of family solidarity and intergenerational solidarity is a highly complex task. Certain aspects are relatively easy to find operational concepts for and indices for measuring. The examination of various forms of help, as well as of the frequency of social relationships, is an old field of research with many well-developed research methods. However, there are a number of features that are much more difficult to capture with precise methods; ones that can only be grasped by taking the results of other disciplines into consideration. Bengtson and his colleagues have considered multiple (psychological, sociological, economic, and communicational) aspects of family solidarity since the 1990s in an attempt to provide a more complex description of the phenomenon (Roberts – Richards – Bengtson 1991, Bengtson – Oyama 2007). The present paper aims at summarizing the state of affairs in Hungary based on the six interpretational dimensions elaborated by Bengtson and Oyama, but

in doing so, it places them alongside the peculiar problems of late modernity in the light of Hungarian empirical findings.

In this framework, emotional solidarity focuses on family members' recognition of each other and their appreciation and expression of emotional support, while social solidarity concerns the nature and frequency of family members' relationships with each other. Functional solidarity means the study of generational transfers, and economic (or other kinds of) support between generations. Bengtson and Oyama developed distinct analytical dimensions for the overlap between the views, values and aims of generations ("consensual solidarity"), as well as the expectations about the duties of children and parents; i.e., the norms relating to the importance of family values ("normative solidarity"). Structural solidarity includes "possibility structures" which create the framework for the other dimensions – for instance, geographical closeness or distance (Bengtson – Oyama 2007).

### 2. a) *Affectual solidarity*

Affectual solidarity within the family is present in most discourses in the scientific literature, or more specifically, it is clearly interpreted as a highly positive phenomenon. When seeking an academic explanation for this, psychology offers a number of alternatives – from the theory of attachment, through evolutionary psychology, to the literature on altruism –, but there is no need to be an expert to see that the elderly always invest more in the young, in the psychological sense as well. Theories of late modernity – whether they are new socialization theories, metatheories, or diagnoses of the times – also emphasize the growing importance of emotional solidarity. As external frames of reference (and thus also support) for individuals loses its relevance, so family and relationships become the location for creating ontological security and identity (Giddens 1991, 1992, Kauffman 2001, de Singly 2005, Takács 2013).<sup>6</sup> These theories claim that the nature of family solidarity is being transformed as the function of the family is changing, with emotional factors becoming more and more significant.

As for Hungary, the involvement of an emotional component in family and generational solidarity is ambivalent. On the one hand, Hungarian society is well-known for its familist system of values. The findings of network studies from the 1980s that revealed the dominance of family relationships and of traditionalism (Hankiss 1976, 1989, Hankiss et al. 1982, Angelusz – Tardos 1990, Utasi 1991, Füstös – Szokolczai 1994, Cseh-Szombathy et al. 1994, Beluszky 2000) have many similarities with the conditions that existed in the period after the millennium, as people to this day rely on family relations to a greater extent than in Western or post-socialist countries (Pongrácz – S. Molnár 1997, 2011). Value studies in Hungary emphasize the existence of a strong familist attitude: the utmost importance of the family. The idea of familism sees family as the ideal scene for altruism and solidarity, where family is the (exclusive?) source of

<sup>6</sup> Based on American value studies, Bengtson has highlighted the continuous intensity of emotional solidarity since the 1970s (Bengtson - Oyama 2007).

such values (Putnam 2000, Fukuyama 1995, Utasi 2013, Dupcsik – Tóth 2008, Füzér 2015).<sup>7</sup> Advocates of familism as an ideology in Hungary think that most Hungarian people would live their family lives according to traditional values if they could choose based on their innermost convictions, free of any social and economic obligations: the male head of the family would provide for the family financially, the wife would raise at least two or three children, and she would run the household (Dupcsik – Tóth 2008).<sup>8</sup> However, as Hungarian researchers emphasize, in such familist societies the source of familism is “Not the immanent but the relative strength of family relations and family-friendly attitudes, inasmuch as other social relations are weak and rare, are often coerced and are constantly prone to the danger of destabilization resulting from the mutual distrust of the participants.” (Dupcsik – Tóth 2008: 309).<sup>9</sup> The question remains whether the tendencies of late modernity (the transformation to production through the market economy, growing inequalities in terms of wealth, the effects of individualization as evidenced by the increase in the number of single people) are eroding earlier forms of family solidarity, or on the contrary, if they are generating self-defensive mechanisms that enhance family union, assistance, and altruism. Many argue for the presence of social anomy and disintegration; i.e., that uncertainty and hopelessness penetrates everyday life; that integration is being enhanced at a micro level due to the increase in distrust of institutions and decision makers (Utasi 2013, Albert – Dávid 2015). However, it must also be considered that “while cooperation within the family, social solidarity - more specifically instrumental assistance - [operates] well due to (...) a network of strong relations, emotional solidarity, emotional contact show[...] significant shortages” (Utasi 2002: 389).

Approaching the issue from the definition of affectual solidarity – family members’ acknowledgement, appreciation and emotional support of each other – it has to be said that this type of family solidarity is not characteristic of Hungarian families in a society that struggles with a crisis of acknowledgement in spite of its strong family values. Familism involves not only the conservation of roles but often the denial of gender equality. Sharing of work in the family is not equal; women who take on household tasks and raise children do so as a second shift, as an unpaid, socially unappreciated

7 In their paper on familism, Olga Tóth and Csaba Dupcsik highlight that familism can also be described as a social situation as well as an ideology that is typical of societies in which individuals can only rely on family relations due to a low level of personal and institutional trust. This is true not only of Hungary but China, as well as for a number of post-socialist countries where centralisation involves working traditions and practices with weak civil societies (Tóth – Dupcsik 2008).

8 In spite of the significant presence of women in the labour market in Hungary, the inequality of their share of work related to the household and caring for children or the elderly has not been questioned. According to the results of Hungarian and international values studies, Hungary is outstandingly familist, even among socialist countries. According to some data from 2006, for instance, 64% of Hungarians agreed with the statement “The husband’s role is to make money, and the wife’s is to take care of the family and the household” (as opposed to 42% of Romanians and 40% of Poles), while almost 80% of Hungarians agreed that “being in employment may be important, but most women’s real aim is to have a home and children” (58% in Romania, 40% in Poland). Moreover, acceptance of the statement that “being a housewife can be just as self-fulfilling for a woman as [having] a paying job” is almost 50%, even though the acceptance of the tradition of “husband as breadwinner - wife as housewife” weakened to some extent after the millennium, especially among the uneducated and unemployed (or those threatened with unemployment), who were forced to give up ideas deemed to be unrealistic from an economic point of view (Pongrácz – S. Molnár 2011: 102-105).

9 The discrepancy between the ideology and social state of familism and its reality is most striking in terms of the numbers of those who have children: family-centred countries such as Spain, Italy and even Hungary have the lowest fertility rates (Dupcsik – Tóth 2008).

activity. Although in certain social groups increasing numbers of couples and parents share household chores or tasks involving children, monotonous and unpleasant tasks are still largely done by women, with no appreciation or acknowledgement (Murinkó 2014, Spéder 2011, Blaskó 2006, Pongrácz – Murinkó 2009, Harcsa 2014). The enormous pressure to follow the norm of helping aging parents is “naturally” assigned to women, especially among the undereducated; such tasks in Hungary are not presently considered to be socially acknowledgeable according to mainstream discourse (Tátrai 2016).

## 2. b) Associational solidarity

*Associational solidarity* (i.e., relationships among family members who belong to different generations) has become more common, according to research. This is partly due to widely accessible communication technologies, and partly to the phenomenon of post-adolescence (Kacsuk 2004, Somlai 2007). For this reason it is surprising that – in opposition to all the expectations formulated in literature about the subject – intergenerational relationships are loosening in Hungary as well, and an increase in the ability to choose is becoming more characteristic, as earlier observed in Western societies. The ability to choose, which earlier was characteristic with regard to friendships, is now increasingly present in family relations – i.e., people tend to keep in touch with those family members with whom they really want to (Albert – Dávid 2015).

Similarly to generational transfers, associational solidarity is one-sided: it is parents who maintain contact with their (adult) children most intensively. Adult children are less eager to do this, which is evident as there are more loose relationships in young adults’ lives, possibly due to social contact they have with the parents of a partner, or when divorce in childhood loosens or terminates a relationship with a parent<sup>10</sup> and leads to tension and conflict between parents and the partner, as verified by Ágnes Utasi using Hungarian data (Utasi 2013). On the one hand, Utasi found that the intensity of the network of strong relationships decreased more for the younger generation than the older generation, and on the other, that there was a significant increase in the number of those who had terminated relationships, did not keep contact with and rarely and/or never met individuals with whom they are in “strong” relationships. Other research sees a significant decrease in (not only) the associational aspect of family solidarity in phenomena like the increasing isolation of single mothers, the symbiotic relationships of mother and children (that exclude the partner and/or the father), and a preference for female relations from the same age group instead of relatives (especially if the parents are still economically active, or tied up in another type of caretaking) (Gyarmati 2014)<sup>11</sup>. Associational solidarity varies in terms of social strata: Utasi’s representative study shows that relationships

10 In France, 20% of divorced fathers do not see their children after the break-up of the marriage (Régnier-Loilier 2013)

11 The 2011 Household Monitor (Háztartás Monitor) study of confidential relationships also shows that, on average, the number of non-related confidants (i.e., voluntarily chosen relationships) has increased (Albert – Dávid 2015).

are most intensive among people with a secondary education, as family relations are most prone to be damaged among those who live in poverty, making intensive contact more difficult. Those with a degree are distanced from their families by migration, or qualifications that result in other mobility, making encounters and communication rarer.<sup>12</sup> The latest results of friendship research also show that in the past decade the number and significance of friends has increased to the detriment of family relations. This is partly due to the promiscuous nature of the labour market and an increase in precariousness, as such relationships involve weak ties and their potential for instrumentalization is becoming more valuable, along with the weakening trust among family members (Albert – Dávid 2015).

### 2. c) *Functional solidarity*

Among the various aspects of family solidarity, functional solidarity is most commonly measured; moreover, the generational transfers themselves often serve as indicators of family solidarity (cf. Krémer 2015: 195-201). A number of factors may influence the offer, acceptance and refusal of various forms of help and support. Martin Kohli distinguished financial transfers from the older to the younger generation based on the following functions: these improve the position of the elderly within the family, and in return they may expect help and care; they can control the behaviour of the young as a reward/punishment; they can help ensure the welfare of the young generation by compensating for the unfavourable effects of the market (especially in the case of disabled, unemployed and divorced children); and they reinforce relationships within the family, as well as enhancing cohesion (Kohli 1999, as quoted by Gyarmati 2014). According to the Hungarian as well as Western European literature, the direction of transfers is typically from the old to the young. As for Hungarian tendencies, “the amount of total net resources [transferred] to the children is higher (27% of the national income), than [...] to the old” (Gál – Vargha 2015: 144). In Hungary, accumulated wealth is more typically handed over to children, instead of being spent. The majority of intergenerational transfers manifest in the form of help to buy a flat, followed by everyday financial support, and help of another nature (such as cooking, childcare, or DIY). It is clear from the transfer studies that today’s generation of parents (would) find it extremely difficult to survive without the financial help of grandparents in families of low as well as high status; the loans of young people that are taken out to finance having a family are mostly being repaid from the savings of older people with adult children who are preparing for retirement.

### 2. d) *Consensual and normative solidarity*

The changes in society and the value system of the last decades have resulted in interesting tendencies in terms of consensual and normative solidarity. The former is

<sup>12</sup> Based on the findings of Ágnes Utasi, weakening social solidarity due to mobility is mostly characteristic of people living in large villages (Utasi 2013).

concerned with the differences and similarities in views and values between parents and children. Such differences may even lead to the conclusion that the conflict- (and sometimes deviance) based paradigms of the sociology of the youth are outdated. One of the most surprising findings of youth research in Hungary is the significant extent of agreement between children and parents in terms of their values, but other research involving German and French adolescents also emphasizes the existence of conflict-free intergenerational relationships, highlighting the role of repeated compromises in everyday life ( Székely 2013, Galland 2008, 2010, de Singly 2006, Martuccelli – Dubet 1996). The convergence of the norms of the young and their parents is not surprising in late modern societies. The homogenizing effect of consumer society and the enhancement of the importance of popular culture bring about the fading of cultural differences between generations, but new dependencies in terms of functional family solidarity may result in an increase in consensual solidarity. This is why it is especially interesting how normative solidarity (i.e., expectations and hopes about children's and parents' duties) are developing. The increase in consensual solidarity requires that generations agree with traditional normative expectations and duties such as ensuring children's institutional socialization and their socialization within the family, supplying emotional and financial support for the young, and caring for the old at the level of the family and society. Even if at the attitudinal level total agreement can be measured, research into everyday behaviour and Hungarian practice shows an entirely different picture. According to Andrea Gyarmati's qualitative and Ágnes Utasi's representative research, there is a clear difference in the relationships between people in their thirties and forties and their parents. The present generation of mothers rely on their parents' help in terms of childcare far less (only occasionally), and reciprocity is not so evident, either. One reason for this is the different nature of mother-daughter relationships: the latter are closer and friendlier, but also come with an element of criticism; young people let others interfere with their child-raising principles to a far lesser extent than in earlier times. On the other hand, assistance on behalf of parents to adult children (grandchildren) in terms of care is also occasional and ad hoc, and the need to be available is not evident (Utasi 2013, Gyarmati 2014). The reverse arrangement, based on the index of "children's responsibility" that is used to measure help provided to older parents, shows that in Hungary children have a lower sense of responsibility towards their parents than in other Eastern-European countries, rather similar to the younger generation of the majority of Western countries (Medgyesi 2016: 65). It is a well-known fact that a population with familist values has strongly paternalist expectations in everyday practice, so the low level of "children's responsibility" can be explained by solidarity at the system level; i.e., to expectations about the welfare services of state.

The above types of generational solidarity and behavioural types are significantly affected by the structural factors that Bengtson and Oyama define as structural solidarity. These are primarily structures of opportunity determined by geographical

closeness/distance, which have not been a major factor for Hungarian families for a long time.<sup>13</sup> Therefore, I narrowed down the scope of generational solidarity to its socio-economic determinants. The pluralization of family forms affects patterns of family solidarity at many levels. The high number of divorces in Hungary reflects a lack of solidarity between partners (or parents), and also determines the range of possibilities for single parents. Having (a) child(ren) increasingly has less of an effect on both divorces and whether parents live in a relationship (Földházi 2008, 2015)<sup>14</sup>, and more than a third of underage youngsters experience the break-up of their (step) parents. The vulnerability of relationships brings with it a rearranged pattern of family solidarity: parents, especially single parents, have solidarity with their children, not their partners (Utasi 2002). This change in the role of children within the family may further enhance intergenerational solidarity, as the majority of young people who lack a permanent relationship<sup>15</sup> can expect solidarity from their ‘mothers and sisters’.<sup>16</sup> Providing constant support for a grown up child may result in a state of mutual emotional dependence, which can lead to constraints on adult lifestyles, and a decrease in the need to “move away”.

On the whole, European and North American research describes the persistence of the value of family community and the high intensity of family relations; however, the subject of these studies is the family itself. Other studies draw attention to the fact that a lot of intergenerational relationships can be characterized by indifference and detachment, as well as conflict, while Western and Hungarian results emphasize the decrease in the number of people living in relationships (Spéder – Szalma 2015).

## Ambivalence and misuse – negative aspects of family solidarity

At the end of this paper, as a conclusion, I examine briefly how a prolonged life expectancy, changing relations and structures in the family, and changing governmental responsibility transform the mutual dependence of generations and social responsibility.

13 A number of ideas exist about the possible changes in the behaviour of young people who move abroad and start families in terms of family and generational solidarity. Measurable growth in the fertility rates of Hungarians settling down in Western European countries has been identified, but it is unclear yet whether the norms of the former concerning familial and behavioural patterns in terms of solidarity will adapt to those of the host country (e.g. mothers return to the labour market a short time after giving birth, reliance on non-relative assistance) or whether hybrid solutions will emerge (temporary or permanent immigration of grandparents, and Skype-relationships) or a possible loosening of the relationships between generations.

14 Presently, 60% of broken marriages involve children and 21% of families with a 15-year-old or younger child have a single parent, but 37% of young people between 15 and 18 had at least one period in their lives when only one of their parents was raising them (Monostori 2015). One-third of single mothers do not form a new relationship within five years. This does not automatically mean a new blended family, as some of the relationships involve ‘living apart together’ arrangements (According to Balázs Kapitány’s estimations, today there are about five hundred thousand people in Hungary who live in long-term, exclusive ‘living apart together’ relationships; Kapitány 2012).

15 Representative data from Székely 2013 [Hungarian Youth 2012] reveal that a quarter of young people between 15 and 29 have not had a relationship, 40% of people between 25 and 29 have not lived together with a partner or spouse, and nearly a quarter of young people do not have a friend they would spend their free time with (Székely 2013).

16 Fruzina Albert and Ibolya Dávid’s research shows a tendency for the mother/sister’s role of confidant to be narrowed down to female family members as confidants become increasingly homogeneous in terms of gender: a male would consider another male a confidant, while females have other female confidants (Albert – Dávid 2015).

It is widely believed that in the case of the deficiency or deterioration of welfare institutions –the weakening of organic solidarity, to use the Durkheimian expression – families are forced to rely on their internal resources and ask for help from within the family (“mechanical solidarity”). Some studies contradict this claim, and the idea of the automatic activation of family solidarity.<sup>17</sup>

In recent years it has become apparent in Hungary, as well as in other Western societies, that in contrast to expectations, a lack of services does not (and cannot) necessarily increase intergenerational transfer allocation (Jendrek 1993, as quoted by Gyarmati 2014: 52). External attempts to reinforce family solidarity on a legal basis, enhanced by the fact that a potential increase in grandparental help is available due to an aging society, represent forceful intrusions into the internal lives of families, as well as an attempt to refeudalize society. For instance, the legal regulation of parental care “as a solution” not only takes us back to the time before social insurance, but potentially dismantles family solidarity itself by introducing an outsider into the life of a family.

An increase in family solidarity may result from the weakening of society and social solidarity and can appear as a tool for overcoming social anomie and strengthening society at the same time. Family and generational solidarity, which are clearly assessed positively at a micro level, in fact serve as a major factor in the inequalities of new generations. Generational transfer studies arrive at similar conclusions regarding the decisive nature of parental assistance when starting one’s life, when entering the labour market, or when securing one’s livelihood. Clearly, family solidarity that manifests in parental help can result in the transmission of inequality from generation to generation. It is characteristic of both Western and Hungarian societies that the amount of support from the family is highest in case of young people with degrees (Medgyesi 2002), and that people in worse conditions receive neither more financial nor in-kind help from their families (Spéder 2002) – and nor can they hope to receive support from anyone else (Utasi 2013, Albert – Hajdú 2016). The sociological research into family and generational solidarity therefore is faced with the ambivalence that whilst this type of solidarity at an individual and family level can clearly be interpreted as a positive phenomenon (with its role as a supporter of the self, identity and financial security), in terms of society, family and generational solidarity are dominant and increasingly significant factors of the regeneration of social inequalities (Bourlès – Bramoullé – Perez-Richet 2016, Krémer 2015: 201). This topic, however, is outside the scope of family solidarity, as the issue of inequalities among families leads us to the problem of social justice.

<sup>17</sup> Andrea Gyarmati cites English-speaking studies, but the issue requires thorough investigation (Gyarmati 2014).

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Review of Sociology 27(4): 20–39.

# Parental time from the perspective of time pressure

## The idea of intensive parenting

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Manuscript received: 4 July 2017.

Modified manuscript received: 15 November 2017

Acceptance of manuscript for publication: 1 December 2017

**Abstract:** While there is an upward trend in the time parents and children spend together, there is also intensifying parental anxiety about whether they are spending enough and sufficient quality time with children. The significant impact of parental time on children's cognitive and social outcomes and wellbeing is well documented in the literature. This importance is also reflected in the often-used notion of quality time in academic and public debate, which emphasizes the nature of parental time. Moreover, there is growing evidence that a 'squeezed' feeling of time characterizes the lives of contemporary families. The difficulties of reconciling work and family life mostly concern parents.

This paper reviews the literature about parental time based on the problem of time pressure, and related to this, the paradoxical anxiety of today's parents about the time they devote to their children. The article aims to describe parenting trends and focuses on parental time by exploring its features and influential factors. First, we review the characteristics of changing expectations about parenthood and discuss emerging concepts concerning the time parents and children spend together related to the ideals of contemporary parenting. Second, based on earlier empirical findings, the most important factors are outlined and elaborated. Reflecting on the Hungarian context, related findings are also presented.

**Keywords:** parental time, intensive parenting, quality time, gender

## Introduction<sup>1</sup>

In the literature it is well-established that parental time is highly important for children's futures since it has a positive impact on various outcomes. Most related studies focus on young children and their results emphasize the significant importance of early years (Waldfoegel 2016). In agreement with this, parental time has been associated with fewer behavioural problems and better academic performance, and might positively affect children's wellbeing (Offer 2013, Hsin – Felfe 2014, Milkie et al. 2010, 2015). However, there is ongoing academic debate in Western societies

<sup>1</sup> This paper was written as part of a National Research, Development and Innovation Fund project ('Race against time' NKFIH K120089). The author would like to thank the reviewers and editors for their valuable comments on an earlier version of this paper.

about parental time, and several studies emphasize that it is not the amount but the quality of the time that parents and children spend together that matters for children's outcomes and wellbeing (Hsin – Felfe 2014, Milkie et al. 2015).

Although in Western societies contemporary families have the largest amount of leisure time at their disposal in the course of history (Kremer-Sadlik – Paugh 2007), increasing amounts of evidence in academic and popular media supports the existence of a time famine (Sullivan – Gershuny 2001). It is mainly households with children who suffer from the difficulties of reconciling work and home life, and parents – mostly women – are reporting to feelings of stress caused by the need to organise their families under increasing time pressure (Milkie et al. 2010, Kremer-Sadlik – Paugh 2007).

The trend of time spent with children reveals the increasing importance of parental time; maternal time with children has not decreased, despite women's entry into the paid workforce (Bianchi 2000). Furthermore, the tendency for fathers to spend more time with children is strengthening. These two trends have led to an increase in the total time dedicated to children, despite decreasing fertility levels (Sullivan – Gershuny 2001, Lam et al. 2012). However, there is also persistent evidence that the majority of American parents want to spend more time with their children (Milkie et al. 2004, Nomaguchi et al. 2005, Roxburgh et al. 2008). Although this increase is well-established in the literature, there is much less empirical knowledge about how parents and children spend time together (Craig et al. 2014).

Concerning growing time pressure, numerous researchers emphasize the effect of the volatility of labour markets, and as a result focus their attention on changes in working conditions (Schor 1991, Van der Lippe 2007). Increasing flexibility broadens opportunities in terms of the combination of these two domains, although it can also generate conflict while actors strive for balance (Hochschild 2001, Kvande 2009, Van der Lippe 2007). The changing characteristics of work influence family life, the nature of parenting, and the time available for children (Wajcman et al. 2008, Galinsky 1999, StGeorge – Fletcher 2012). However, it should be highlighted that flexible working arrangements typically concern the service sector and particularly white-collar workers (Kvande 2009). Furthermore, families with children may face growing pressure from the changing expectations regarding the 'other domain'; namely parenting (Van der Lippe 2007). In the academic discourse, special attention is being paid to a new type of fatherhood based on a more active and involved form of commitment that includes caring tasks (LaRossa, 1988, Spéder, 2011, Geszler, 2014). In line with this, the norm of intensive mothering has also recently strengthened in our societies. This ideology suggests that mothers should devote large amounts of time and energy to their children to ensure their proper development (Hays, 1996).

This paper reviews literature about parental time and discusses the problem in the social context of the 'squeezed' feeling of time that characterizes the lives of families in contemporary Western societies. This approach, using insights from time

pressure literature, might contribute to the better comprehension of contemporary parenting. Moreover, the review of the literature may raise important and still unexplored issues about parental time. Although research on parenting is still lacking in Hungary, better understanding of the features of contemporary parenting might reveal some important characteristics of family functioning and the work-life interface. This review thus highlights the potential of research on parenting.

Consequently, the paper elaborates the dominant cultural model of parenting and the related concepts of time. Furthermore, and connected to the idea of intensive parenting, it aims to describe the important factors that influence parental time. Related to these factors, the paper reviews earlier findings about parental time mostly from English literature. Moreover, the related Hungarian context will be elaborated.

The paper is structured as follows: as a point of departure it introduces the ideal of intensive parenting and the concept of parental time. The following section, based on earlier empirical findings, provides an overview of the important factors which are connected to the feeling of time pressure and thereby influence parental time. Subsequently, the Hungarian context is described based on earlier findings. Last, we present and discuss the main conclusions and propose some further and still unexplored areas of research related to parental time.

## Intensive parenting

Numerous scholars have argued that what we think about parenting concerning expectations and experiences has changed enormously in the last couple of decades (Hays 1996, Nelson 2010, Faircloth 2014). As a result of the development of a contemporary parenting culture, the concept of 'intensive parenting', which was introduced by Sharon Hays (1996), has emerged (Faircloth – Lee 2010). The former author explored expectations about motherhood in her influential book. While the rise of this parenting cultural script emerged first in the US and the UK, in recent years it has also spread beyond these countries (Dermott – Pomati 2016).

Hays (1996) defines the new commitments that characterise contemporary mothering in the following way: "the methods of appropriate child rearing are construed as child-centred, expert-guided, emotionally absorbing, labour intensive, and financially expensive" (p. 8). Intensive motherhood prescribes obligations and thereby serves as a normative standard rather than a description of the practices of every mother. The claim suggests that time with mothers has become especially highly valued (Milkie et al. 2015), so the norm reflects the high expectations that a good mother is always available for her children (Nagy – Paksi 2014, Milkie et al. 2010), although this ideal may prove challenging, particularly to employed mothers (Christopher 2012).

Faircloth (2014) accentuates the importance of another influential piece of work that illustrates the features of today's parenting; namely, Frank Furedi's *Paranoid Parenting*, first published in 2001. Furedi applies risk as an underlying concept and argues that

today's parents are constantly worrying and questioning whether they are parenting correctly (cited by Faircloth 2014). Consequently, Faircloth (2014) suggests that parenting has expanded in scope and nowadays requires a growing range of activities due to the shift in perceptions of children, who are seen as "more vulnerable to risks impacting on physical and emotional development than ever before" (p. 26). In line with this perspective, the highly valued position that children occupy in contemporary families may provide an explanation for these changed expectations (Gillis 2003).

To summarize, the logic of intensive parenting means that parents are seen as totally responsible for their children's social, emotional and educational success (Faircloth 2014). This intensive style of parenting, which demands large amounts of time, energy, and material resources, is also reflected in popular debates about 'tiger moms' and 'helicopter parents' (Faircloth 2014, Dermott – Pomati 2016). The former term refers to mothers who push their children to do extra-curricular activities to ensure their success, while helicopter parents are those who are overprotective and constantly monitor their children (Dermott – Pomati 2016). Moreover, in relation to this topic a new ideal of fatherhood is emerging (Geszlér 2014). The category of 'new' or 'active' fatherhood emerged in the 1960s in American social research. According to the most popular view of changing fatherhood, this redefinition of the fathers' role in the family is a consequence of changes in women's positions in society, as a result of which families face greater challenges with arranging childcare. The result is that ideals of 'fathers' have evolved in American society that involve active, caring involvement and a close emotional bond between father and child (LaRossa 1988).

## Concepts of parental time

The time parents and children spend together is one important aspect of intensive parenting. Parental time can include all kinds of parent-child interactions, including interactions with only one of the parents, so it consequently refers to both maternal and paternal time.

The current discourse about parenting, as presented above, underlines that the cultural views of parenting are dominated by the quality of parent-child relationships, and time has become one of the most important components of that relationship and therefore of the parenting experience (Roxburgh 2012). A diversity of approaches are taken in the literature to express the significance of time parents and children spend together. In the following section of this paper, these ideas will be elaborated.

There is a broad concept of family time which reflects on the importance of spending special time with family and the children. This concept includes the idea that our lives should be organised in a child-centred way (Gillis 2003), mirrors a romanticized version of family life, and puts traditional family values into focus, where the emphasis is placed on the creation of quality time that promotes family well-being (Daly 2001). Consequently, family time refers to an idealized infinite time which families live according to (Ashbourne

– Daly 2012). Daly (2001), in investigating the ideal of family time, distinguishes three attributes of this concept. First, according to parents, family time is dedicated to the social production of memories. Togetherness and positive time are at the core of this notion. Last, this time may be particularly highly valued when it involves spontaneity. As a consequence, family time refers to family rituals, traditions and family events, and also time which might be spontaneously used but enables the experience of togetherness (Daly 2001, Daly-Ashbourne 2012), like time spent together watching movies and playing games. Family time thus emphasizes the importance of quality itself.

The concept of ‘quality time’ emerges in the frame of family time. Snyder (2007) describes the significance of quality time as follows: “‘Quality time’ has become part of our cultural discourse concerning what it means to be a ‘good’ parent” (p. 320). This qualitative aspect of time comes to the fore; the notion of quality time primarily accentuates the nature of the interaction and not the amount of time families spend together: consequently, the emerging concept of ‘quality time’ differs from its temporal characteristics and subjective experience is highlighted. Accordingly, time is considered a social construction, which includes values and beliefs about how individuals should efficiently use their time (StGeorge – Fletcher 2012).

On the one hand, the concept of ‘quality time’ reflects the problem of time scarcity in family life (Kremer-Sadlik – Paugh 2007) by emphasizing the importance of the nature and not the total amount of time the family spend together. On the other hand, this works as a cultural model of parenting. Accordingly, the notion of quality time includes beliefs about how parents should spend time with their children to enhance positive outcomes for them, and ensure their proper development and close parent-child relations (Snyder 2007, StGeorge – Fletcher 2012).

The desire for the cognitive enhancement of children is of crucial significance in parenting culture, and its importance is reflected in many activities which are seen as indicators of good parenting, such as reading with children, helping with homework, and organising cultural programs (Dermott – Pomati 2016). The inclusion of extra-curricular activities in the day-to-day lives of children is also aimed at their cultural development (Lareau 2003). In the literature, quality time has been defined as the amount of time spent on activities of a particular quality which are seen as interactive or enriching for children, like reading, talking, playing or eating with parents, etc. (Milkie et al. 2015, Kalil et al. 2016)<sup>2</sup>.

## Factors that influence parental time

There are several important factors that influence parental time, Monna and Gauthier (2008) extensively explored the social and economic determinants of these

2 There are several different methods for measuring parental time, although the majority of the reviewed literature uses time diary data. However, parental time may be differentiated according to diverse categories of activities in order to capture the nature of this time. However, the description of the measurement of time goes beyond the scope of this article.

in their review article. Although the model of intensive parenting is an important cultural ideal for virtually all parents, it does not affect everyone in the same way (Faircloth 2014). Therefore, in the following section of this paper we review some more recent empirical findings, and four important dimensions related to the emerging concept of parenting are elaborated. These factors are also important for comprehending the increasing feeling of time pressure related to parenting.

### *The age of children*

First of all, the age of children is one of the most dominant factors that influences the amount of time parents devote to children. There is persistent evidence that parental time decreases as children age (Kendig – Bianchi 2008, Monna – Gauthier 2008, Craig et al. 2014). On the one hand, in the first years childcare is highly time-demanding as parental time is mostly characterized by personal care tasks such as feeding, dressing, etc. On the other hand, in line with the concept of intensive parenting, the importance of early years might also explain the increasing amount of time parents spend with children in this period (Monna – Gauthier 2008, Craig et al. 2017). Waldfogel (2016) argues that, based on the well-explored impact of early childhood experiences on children's outcomes, the significance of parental time, especially maternal, is the strongest norm related to these years (Waldfogel 2016). Craig et al. (2014) compared Australian time use data between 1992 and 2006 to explore changes in parental time with regard to the emerging concept of intensive parenting. The authors found that the increase in parental time concerned only children aged 0-4 years.

Demands for family time are most pressing in early childhood (Monna – Gauthier 2008), which is also reflected in research findings about the subjective experience of time. Milkie and her colleagues (2004) investigated both objective measures of time and subjective assessments about the time parents and children spend together in the US. They found that the feeling of time strain was associated with the child's age (the parents of preschool children reported more time strain). Furthermore, a recent study of gender differences in parents' subjective time pressure based on Australian time use data from 2006 also confirmed that parents who had a child of under five years of age in the household were more likely to report feeling rushed (Craig – Brown 2017).

However, other studies underline the significance of adolescence. Nelson (2010) argues that according to the concept of intensive mothering, this is also a significant period for establishing and supporting children's success. Milkie and her colleagues (2015) in a recent study about the US found that parental time – if both parents are present – has a positive impact on several indicators of adolescent wellbeing. Moreover, maternal time appeared to be significant only for teenagers (aged 12-18 years) and not for school-aged children (aged 3-11 years). This result refers to the time parents are directly involved in participating in certain activities, conceptualized as 'engaged time'.

## *Gender*

Parenting is a highly gendered experience (Faircloth – Lee 2010, Faircloth 2014), and in the following section the importance of gender will be discussed in more detail. First, the norm of intensive mothering has emerged and strengthened in our societies, although the expression of and emphasis on parenting tends to conceal the reality that mothers undertake most caring tasks and are primarily responsible for their children (Faircloth – Lee 2010). However, in the academic discourse special attention is paid to the above-mentioned new type of fatherhood based on a more active, more involved form of commitment that also includes caring tasks (LaRossa 1988, Spéder 2011). There is persistent evidence that the reconciliation of work and family commitments mainly concerns women (Schor 1991, Hochschild 2001). Moreover, becoming a parent strengthens traditional patterns: as mothers leave the labour market, the working time of fathers increases (Craig – Mullan 2010). Moreover, the gendered nature of parental leave might add to perceptions of unequal labour at home (Rehel 2014).

As for time-use data, although the trend is moving towards greater parity in terms of the time parents spend with children due to the increasing amount of time fathers spend with offspring (Rehel 2014, Craig et al. 2014, Hofäcker 2007), maternal time remains longer and has not decreased since women's entry into the labour market (Bianchi 2000). Moreover, not only the amount of time but the different nature of the time that is spent with children also proves that the gender division in parental time remains strong. While fathers are more likely to participate in leisure and educational activities with children, mothers are mostly responsible for more labour-intensive tasks such as providing physical and routine care (Monna – Gauthier 2008, Craig et al. 2014). Additionally, fathers who spend time with children are more likely to do so in the presence of their partner, while mothers spend more solo time with children (Craig et al. 2014, Kalil et al. 2014). Concerning multitasking, Offer and Schneider (2011) examined data in the US and found that mothers spent ten hours a week more than fathers engaged in multitasking, which time was mostly dedicated to childcare and housework. Moreover, while multitasking at home for mothers had negative outcomes (like work-family conflict, stress, etc.), for fathers it was not associated with negative impacts.

In line with the trend described above, Craig and her colleagues (2014) also described how Australian fathers spent significantly more time with children in 2006 than in 1992. Concerning the type of activities, the scholars suggest that paternal time with children involves much greater proportions of leisure time than maternal time.

Highlighting the features of the cultural norms of parenting, a US study on educational differences and cross-spouse effects on parents' time with children concluded that cultural values are stronger for mothers, since their educational level is more likely to determine both maternal and paternal time than men's education (England – Strivastava 2013). These facts confirm the claim that women face an intense dual burden of work and private life, and that the nature of time spent with children can lead to more time pressure.

However, there are some conflicting results about the gendered characteristics of time pressure. On the one hand, Nomaguchi et al. (2005) suggest that time pressure is influenced by gender, and women are more time-pressured. The authors describe how fathers are more likely to report spending insufficient time with their children and spouses, while the time strain involved in the parental role – and also in the role of spouse – only negatively influences mothers' wellbeing among dual-earner parents. This result confirms claims about the pressure of the cultural norms of modern motherhood. On the other hand, Roxburgh (2012) argues that it has not been confirmed that there is a difference between mothers and fathers concerning the amount of free time, or in the feeling of time pressure (Roxburgh 2012). The author focused more precisely on the effect of a 'squeezed' feeling of time related to parenting, and found that, for both men and women, feelings about time with children are a relevant source of stress among American dual-earner couples. As a consequence, and based on her results, Roxburgh concludes that "changing normative expectations may be placing additional stress on working fathers" and at the same time, these "changes in expectations for fatherhood are not concomitant with decreases in expectations for mothers" (p. 1054).

This contradiction might be explained by Sebók's (2014) conclusion. The author argues that while job characteristics influence work-life conflict among men and women equally, family factors primarily negative impact the reconciliation of work-life balance among women.

### *Socioeconomic status*

In this section of the paper, the impact of family socioeconomic status is elaborated, since this significantly determines the mode of parenting and parental time, especially its qualitative aspects. Economic resources – strongly connected to the family structure – and human and social capital can influence how individuals meet the requirements of the ideal of intensive parenting. Moreover, it is important to note that the new expectations about parenting are deeply influenced by the norms of the middle class (Dermott – Seymour 2011).

The significance of material resources was mentioned above related to the ideology of intensive mothering. The consumption of material goods that defines the diverse methods of parenting requires a certain level of economic resources (Faircloth – Lee 2010). The ability to organise cultural programs, go to movies, or buy board games and books is notably dependent on the financial situation of the family.

In addition, Esping-Andersen (2009) underlines the importance of parental time investment in understanding rising inequalities. He argues that, although children at the bottom of the socioeconomic ladder may receive more parental time due to the lower labour demands of their parents, the number of siblings in the family and the quality of parental time investment may put them in a worse position. Empirical findings demonstrate gaps in children's outcomes according to family social status

and also confirm the importance of the quality of time parents and children spend together. The difference in outcomes appears as early as in early childhood and determines opportunities later in life (Kalil – Mayer 2016).

Related to economic resources, the disadvantaged position of single parents may be underlined. In line with this, family structure is also highly influential since there is a growing proportion of one-parent and also multinuclear families (Vaskovics 2014). Parental time with children can differ significantly between the various forms of families (Waldfogel 2016). However, Kendig and Bianchi (2008) suggest that it is not the structure of the family but rather the societal position that matters. Investigating the relationship between family structure and maternal time in the US in mid 2000s, scholars found that single mothers spent less time with children, as consistent with earlier empirical evidence. The data explained the lower time investment according to their disadvantageous social structural position, and the authors proposed that the differences between mothers in similar circumstances (employment, education, or age) would otherwise disappear. In contrast, after exploring the time investment across family structures in the US, Kalil and her colleagues (2014) argue that family structure influences the time devoted to children. The authors report that the solo parenting time of single mothers (the time children spend only with the mother) is even greater than that of married mothers. They propose that the lower total time investment that children with single mothers receive is the result of little time investment from non-resident biological fathers, and/or mothers' resident boyfriends. Furthermore, they conclude that children in two biological parent families might offer children the most benefits based on the greater amount of parental time they invest, including solo father time.

Furthermore, the intensive style of parenting also demands a specific skill-set: "a certain level of expertise about children and their care, based on the latest research on child development, and an affiliation to a certain way of raising a child" (Faircloth – Lee 2010: 1). The ability to make these choices is typically the privilege of well-educated parents (Faircloth – Lee 2010). The educational level of parents influences the amount and characteristics of the time parents and children spend together. Concerning maternal time in terms of both quality and quantity, several studies have confirmed the difference between less and more educated mothers (Sayer et al. 2004; Kendig – Bianchi 2008). Hsin and Felfe (2014) emphasize the importance of quality, and argue that it is not the total amount of time that varies, but rather the way parents spend time with their children. Often mothers at the bottom end of the socioeconomic ladder do not have the knowledge and resources to live up the cultural expectations of modern parenting (Nomaguchi et al. 2016). This hypothesis has been proved by Bianchi and Robinson (1997) who reported, based on time diary data from a sample of children from California aged between three and eleven, that parental education is a strong predictor of human and social capital investment. This result confirms the importance of difference in terms of class and education.

Furthermore, concerning the issue of quantity, a more recent study that examined time diary data in the US in the 2000s also confirmed earlier empirical evidence that well-educated parents invest significantly more time in their children (England and Strivastava 2013). The authors accentuate the importance of the cultural norms of parenting to explain their findings – namely, that more highly educated parents spend more time on childcare, although they are more likely to be employed and work full-time. However, England and Stravistava (2013) distinguish between several types of activities and find no significant differences in terms of the activities that support children’s cognitive learning or basic care according to parental educational level.

### *Characteristics of the work of parents*

In the literature the employment patterns and work characteristics of parents are the focus of the investigation of parental time, mostly instigated by the persistent debate in Western societies about how maternal employment affect children’s outcomes and wellbeing.

Concerning the quantity of time available for children, parents’ employment status strongly determines this; empirical findings demonstrate that there are significant differences in the amount of time spent with children according to maternal employment status, with the result that much less time is spent with children of employed mothers (Kendig – Bianchi 2008).

However, results of a study of the influence of working hours questions its significance based on cross-national data (Sayer – Gornick 2012). Sayer and Gornick (2012) examined time diary data from nine countries (included English-speaking and Nordic countries, France and Slovenia) and proposed that it is not employment patterns nor the gender regime but rather the cultural norms of parenting that define parental time. Their conclusion are based on the finding that time spent with childcare was no less in countries with high maternal employment rates and long working hours. For example, while countries with a different culture of working hours and work-family policies like Norway and Canada showed similarities, similar countries (France and Norway) showed great differences in time devoted to care.

Emphasizing the importance of the nature of time devoted to children in recent debates, there is growing academic interest in whether it is simply the amount of time that matters for children (Milkie et al. 2015), and how much patterns of employment (non-standard work, flexibility etc.) affect the quality of time parents spend with children (Liana et al. 2011).

Concerning the impact of working life on the family, several studies have found a negative effect. Focusing on parenting, Galinsky (1999) investigated parents and children using large-sample representative research and also conducted interviews in the US in the 1990s. The author also highlighted that the changed characteristics of work have led to longer working hours and more time pressure. Her results

support the hypothesis of negative spillover<sup>3</sup> from work to family: Galinsky found that holding a job reduces the energy for parenting. In addition, the findings of an Australian study (Wajcman et al., 2008) underline the importance of job characteristics: the employees' degree of control over start and finish times, work stress, and working hours are determinants of work-to-family spillover.

Focusing especially on parental time, Roeters and her colleagues (2010) applied a path model to research the quality of Dutch parents' and children's relations through examining parental time. They suggest that it is not only the amount but also the nature of time that is determinant. Roeters et al.'s study demonstrated complex and mixed findings about the impact of the characteristics of work. First, long working hours decrease time spent with children, resulting in lower quality relationships. Moreover, while non-standard forms of work by the mother led to more time with children, they also resulted in more disturbance in terms of work commitments and less focused time on children, thereby negatively impacting relationship quality. Finally, on the one hand, work engagement resulted in more parental time and thereby better relationships, but on the other, work engagement led to more interruptions during the time spent with children, resulting in lower quality relationships.

## The Hungarian context

Most of the theories and empirical findings described above concern Western societies, primarily the United States, where the issue of work-life balance and the parental anxiety surrounding spending enough (and enough 'efficient') time with children have emerged as salient issues as the 'male-as-earner-female-as-carer' model has been replaced by the dual-earner family model. Finally, the Hungarian context and related empirical findings will be reviewed. A description of both gender and working regime are important for comprehending the patterns of parental time in Hungary. First, we briefly review the gender-related attitudes and characteristics of the labour market. In the following sections, empirical data about parental time and work-life interfaces will also be elaborated on.

Hungary as a post-socialist country has a long tradition of women's labour participation; moreover, after the demise of the regime the state even reinforced the role of motherhood, providing generous state support for parental leave and childcare. These re-familization policies resulted a strengthening of traditional attitudes and patterns concerning the gendered division of labour (Hobson et al. 2013, Nagy 2010). While there is some empirical evidence that, during the 2000s, attitudes related to gender roles became more egalitarian, traditional views and unequal practices have not altered significantly.

<sup>3</sup> Spillover theory highlights the integration of the two domains through mutual influence, and does not consider that the domains are separate. Accordingly, positive or negative attitudes, feelings, values, and behaviours may cross from one sphere to the other, leading to similarities between the two spheres (Roehling et al., 2003).

However, Pongrácz and S. Molnár (2011) found that while the dual-earner family model has become generally acknowledged mainly because families need two paid jobs to have a sense of financial security, the majority still prefer a gendered division of labour.

Concerning parenting, Gregor (2016) investigated the changes in attitudes in the 2000s and reported that general beliefs about gender roles have become more equal and flexible, but traditional attitudes about gender roles in the family remain strong. Ideas about the ideal number of small children are generally connected to the more traditional attitudes of both men and women. Moreover, the value placed on having children in Hungary is very high compared to other countries, a fact suggested by both an examinations of attitudes (Pongrácz – S. Molnár 1994) and by data about time use (Hofäcker 2007).

As far as working regimes are concerned, labour force participation is low in Hungary on international comparison. However, in the last couple of years the employment rate has increased, although it is still below the EU15 average, and compared to the countries of the region, Hungary is still lagging (Scharle 2016). The low participation rates particularly concern women, especially mothers of small children (Hobson et al. 2013). The high rate of unemployment and sense of an unstable future because of a precarious economy are related to a prevalence of low wages and irregular, precarious jobs which increase insecurity. Moreover, long working hours characterize the labour market, and there are limited opportunities for flexible and non-standard work schedules, such as part-time work (Hobson et al. 2013, Frey 2011).

To sum up, societal norms related to gender and the structural characteristics of the labour market such as long working time regimes and precariousness (Hobson et al. 2013) mean that time pressure related to parental time might be an issue of particular concern to Hungarian society.

## Parental time data

In this section of the paper, changes in time use data about parental time will be discussed. Hungarian data from 2009/2010 show a similar trend to the international trends described above. Accordingly, an increase in the time spent on childrearing activities is observable among Hungarian couples in the past three decades, while parental time almost doubled during this period. Since the time that fathers spend with children has increased remarkably, the inequality in parental time between mothers and fathers has decreased. Moreover (and surprisingly among professionals), fathers are tending to spend more time with children compared to mothers, reflecting the emerging cultural norm of involved fatherhood. However, the gendered difference in childcare has remained strong: mothers tend to spend twice as much time with children per day than fathers. Furthermore, this gendered division of roles is reflected not only in the amount of time but also in the nature of activities: while mothers are primarily responsible for caring tasks, fathers take part in leisure activities and playing with children (Harcza, 2014).

Some data highlight the changing cultural norms of parenting. The structure of parental time has changed significantly: time for reading and playing was four times greater in 2010 than at the end of the 1980s, while time spent on caring tasks decreased during this period. Considering the time spent on shared activities, there has been a significant increase in parents engaging in activities only with the child. However, it is important to note that the increase in time spent parenting primarily concerns children until they reach school-age, while time spent on shared activities with children older than seven years is decreasing. This finding might reflect the overscheduled life of school-aged children (Harcza 2014), and shows the relevance of further explorations of parental time with older children.

Furthermore, there is a difference in time spent on the family according to the parents' educational level; namely, parents with a better education have more time for families, and this discrepancy has increased. On the one hand, this might indicate that parents with lower levels of education are more affected by time squeeze (Harcza 2014), but on the other, it might reflect the high value awarded family time in relation to contemporary parenting culture in higher social classes.

### *Parents' work-life balance*

An increase in parental time might affect the work-life balance of parents. However, examples of research into parenting are still lacking, while earlier findings typically demonstrate the difficulty of managing this issue that stems from the structural characteristics of labour.

Utasi (2011) examined negative stress stemming from work based on ESS data from 2005, comparing various regions of Europe. She found that negative work stress affected the private sphere most significantly in Central-Eastern Europe, particularly among women. Hobson and her colleagues (2013) investigated individual perceptions of alternatives and claims for WLB through a comparison of Sweden and Hungary based on qualitative interviews conducted with employed parents. They found that Hungarian parents have only a weak sense of entitlement to work-life balance. The authors explained their results by pointing to the long working time regime and the precarious labour market.

Consistent with other international findings, employees with families experience more stress in terms of reconciling work and family (Tóth 2007). Moreover, Nagy (2008) investigated male managers and found that conflict in their lives was primarily connected to children, especially to the insufficient time they were able to spend with children, although the interviewees accentuated the importance of spending quality time with offspring (Nagy 2008).

In line with this finding, Takács (2013), based on survey data collected from employed parents in Budapest, also argues that quality parenting, which is defined by dedicating quality time to children, has become an important expectation of being a parent. The growing importance awarded to spending sufficient time with children

is also reflected in the findings of some recent empirical, qualitative studies. Takács (2015) reported that fathers who consider themselves active in their fathering role complained about the insufficient time they can devote to their children because of the time constraints of work. Moreover, recently recorded interviews with managers about their work-life balance highlight the significance of quality instead of quantity time (Nagy 2016).

## Conclusions

While there has been an increase in the time that parents and children spend together – especially in the case of fathers (Sullivan – Gershuny, 2001; Harcsa, 2014; Hofäcker, 2007; Lam et al., 2012) –, contemporary parents complain about the insufficient time they are able to devote to their children (Milkie et al., 2004; Nomaguchi et al., 2005; Roxburgh et al., 2008). On the one hand, the squeezed feeling of time that characterizes the lives of contemporary families might influence the nature and the perception of the time that parents and children spend together. On the other hand, the growing importance of the amount and quality of parental time might be related to cultural standards about good parenting (StGeorge – Fletcher 2012).

The quality aspect of time highlights its subjective experience according to family members, and includes values and beliefs about how parents should efficiently spend time with their children (StGeorge – Fletcher, 2012). The contemporary cultural norm of parenting has exacerbated difficulties by raising expectations, or in other words, emphasizing the need for parents to devote sufficient time to their children to ensure and enhance their development, wellbeing and a close parent-child bond (Sullivan – Gershuny, 2001; StGeorge – Fletcher, 2012; Milkie, 2010).

These expectations are embedded in the model of intensive parenting that reflects the notions of intensive mothering and involved fathering. This model, in the frame of a post-Fordist labour market that creates an unbounded working culture and thereby requires constant availability, raises the pressure on adults (Milkie et al., 2010). Indeed, empirical findings confirm the fact that families with dependent children – especially dual-earner families and single parents – are those most affected by the phenomenon of time famine (Sullivan – Gershuny 2001, Milkie et al. 2010).

In this review of English literature about the trends and factors influencing parental time from the perspective of time pressure, we have described four determining factors which might affect the quantity and the quality of parental time. Elaborating on these factors and discussing the related empirical findings about time-related trends in Western societies, the patterns of contemporary parenting have been described.

First, the age of children is the most influential factor in defining parental time; accordingly, time investment decreases as children get older. On the one hand, this is based on the need for physical care in early childhood. On the other, the importance

of time investment in early years for promoting the healthy development of children might also explain the greater amount of parental time. In addition, some empirical results suggest that expectations based on the idea of intensive parenting mostly affect the parents of young children.

Secondly, the gender differences in parenting remain strong, a fact which is reflected not only in the amount but also in the nature of time spent with children. Fathers are more likely to participate in leisure and recreational activities with children, besides spending much less solo time with children than mothers. Furthermore, multitasking is more likely to characterize maternal time which might negatively influence mother's time pressure and wellbeing. To summarize, despite the changing expectations that fatherhood should measure up to new cultural standards, parenting still involves women more intensively than men.

Furthermore, the impact of socioeconomic status is underlined. This factor is the most complex one and relates to other dimensions and determines the quality of time most strongly. The social and cultural resources of parents can be utilized through interaction that enhances a child's cognitive development. This process is determined mostly by the educational level of parents. Furthermore, material resources also influence how parents and children spend time together. In addition, family structure might play a crucial role, primarily concerning the disadvantageous position of single mothers.

Last, the impact of work characteristics is highlighted. Although working hours predict how much time parents can devote to children, the growing importance of quality time questions the significance of this factor. Therefore, other features of work – like nonstandard arrangements, flexibility, engagement, etc. – may be more important in determining the nature of time. Concerning these characteristics, empirical findings offer a mixed picture.

Moreover, a review of the related Hungarian empirical results finds the same patterns, showing that time pressure related to parenting might be a relevant issue in the Hungarian context.

There are some limitations of the reviewed literature which might instigate further inquiry into parental time. First of all, the available time budget research data enables multifaceted research into the quantity (and in some cases the quality) of the time parents and children spend together. However, these data sets can only provide a limited explanation for how these interactions determine and influence family functioning and the parent-child relationship. Although the literature emphasizes the importance of quality time, the subjective experience of time cannot be measured using time use data. Qualitative inquiries could reveal the changing perceptions of time and its features, and thus could contribute to better comprehension of the factors behind the growing time pressure related to parenting.

Furthermore, the public and academic debate mostly focuses on young children and neglects treatment of teenagers. However, numerous researchers have argued that adolescence may be a more stressful period than early childhood, so spending

time with parents during this phase might be especially beneficial for children (Milkie et al. 2016). In addition, findings about the decrease in parental time spent with school-aged children (Harcza 2014, Craig et al. 2014) and Galinsky's (1999) results suggest that it is rather older children who report to spending too little time with their parents, underlining the relevance of research on adolescents.

Furthermore, investigations of family dynamics most often focus on parents, and ignore the perspective of children (Milkie et al., 2010; Kremer-Sadlik – Paugh, 2007). The exploration and integration of children's perspectives can broaden the concept of qualitative time that is devoted to the family, and reveal its complex features. This can open up new pathways of inquiry. The exploration of parental time can be widened to deepen our knowledge about the factors that influence positive outcomes for children and their life satisfaction, and thereby address some of the most pressing questions of contemporary parents.

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Review of Sociology 27(4): 40–60.

# Pension system design and intergenerational redistribution: applying Musgrave's rule in a comparative setting

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Manuscript received: 4 July 2017.

Modified manuscript received: 30 November 2017

Acceptance of manuscript for publication: 6 December 2017

**Abstract:** This paper focusses on the intergenerational distribution of risk and burden of pension financing in differing pension systems. We apply the Musgrave rule of intergenerational fairness, which proposes a pension system to be fair across generations when the system produces a fixed ratio of pensions and labour earnings. By comparing pension system design and the financing of pension provision in eight European countries, the effects of the institutional set-up of pension systems on intergenerational redistribution are assessed, including the key features of the pension systems such as the financing and reform trends of recent years that have affected their intergenerational fairness. By including both statutory and occupational pension schemes in our analysis, we extend the Musgrave framework to cover the most relevant schemes for pension provision.

Pension systems address intergenerationally fair redistribution to varying degrees depending on their design as defined benefit (DB) or defined contribution (DC) schemes and their mixture of statutory and occupational components. The current trend in pension design implies less intergenerational risk sharing within the pension system and less redistribution from workers to retirees. Our results show that current retirees are rather well protected. The contribution burden caused by demographic ageing and growth in pension expenditure is not directly imposed on current employees, but tax financing is gaining in importance in many countries.

**Keywords:** intergenerational redistribution, pensions, pension system, Musgrave rule, pension contribution, pay-as-you-go system, ageing, pension reform

## 1 Introduction

Pension systems are one of the main components of any European welfare state. Pension insurance accounts for the lion's share of social insurance expenditure, and is financed through a variety of mechanisms that differ across countries, combining both public and private actors. The financing of the latter touches upon the very core of the welfare state as

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boundaries between adequacy, sustainability, equality, solidarity and intergenerational equity need to be addressed. Thus, pension systems are constantly being debated, both at the national and European level, by a variety of actors that have vested interests in these issues (see e.g. European Commission 2012). As European societies continue to age, pension systems will be of increasing interest in the years to come.

Recent pension reforms have typically tried to curb expenditure in the near or mid-term future to foster sustainability in the face of population ageing. Along with increases in the retirement age, most pension reforms in the EU have reduced benefit ratios for younger generations (see e.g. Hüttel et al. 2015; European Commission 2009; 2015). Pension systems are intrinsically solidary and redistribute wealth across and between generations. However, the ageing of populations challenges intergenerational solidarity as fewer and fewer working age people are required to finance the pensions of a growing number of retirees in pay-as-you-go (PAYGO) systems. This development, together with the recent reforms, may challenge the very principles of pension systems.

Furthermore, developments in European labour markets disadvantage younger generations' future pension adequacy compared to older generations. Even though variability between the EU countries does exist, one of the biggest legacies of the financial crisis since 2008 has been high levels of youth unemployment (Eichhorst et al. 2014). While the employment rates of older workers have been more resilient since the crisis, young people are experiencing problems getting involved in working life (see Eichhorst et al. 2014; Eurostat 2017). This poses further challenges as regards the adequate replacement ratio that extend beyond the issue of demographic ageing.

The design of pension systems together with labour market attachment have a decisive impact on intergenerational redistribution and future pension levels. For example, Grech (2015) and Augusztinovics (2002) state that negative labour market developments and the increase in youth unemployment, together with the tightening link between pension entitlements and contributory records introduced by recent reforms, could pose a serious risk for current young generations in terms of their future retirement income.

In this paper, we assess how European pension systems are adapting to the challenges of ageing and productivity described above with regard to intergenerational redistribution effects. We apply the Musgrave rule of intergenerational fairness (Musgrave 1981), according to which the ratio of pensions over labour earnings net of pension contributions should remain constant. In contrast to the original application of the rule, which only included statutory pension provision, we include both first pillar statutory and second pillar occupational pension schemes. We assess how the two critical features, productivity development (i.e., the wage ratio of the working population to the past wage rates of retirees) and population development (i.e., the ratio of the working generation to the retiree generation) are likely to challenge intergenerational redistribution and fairness in differing pension systems. By comparing pension system design and how the burden of pension financing is

shared between generations in a selection of European countries, we thus create a more comprehensive picture of the redistribution of risk across generations.

We then apply the Musgrave rule to assess how pension system design theoretically affects intergenerational redistribution under challenges of productivity growth and demographic ageing in eight European welfare states.<sup>2</sup> In the fourth section, we provide novel empirical evidence about the actual distribution of the financial burden of pension provision and how this challenges intergenerational redistribution from the perspective of the Musgrave rule. We conclude by discussing the feasibility of the Musgrave framework for assessing current pension systems and their intergenerational distribution effects.

## 2 Pension systems and intergenerational redistribution

### 2.1 *Fairness, redistribution and pensions*

Pension systems can be understood as insurance arrangements against a variety of risks (longevity, disability and a loss of spouse/parent) in which pension system members pool their savings to create insurance against these risks. In other words, members share risks with each other. In addition to offering mere insurance, public pension systems have other objectives, such as poverty alleviation and redistribution (Barr & Diamond 2006).

The redistribution of pension systems can be both intra-generational and intergenerational. Intra-generational redistribution exists in the form of, for example, minimum pensions, the computation of non-contributory periods, calculation basis and pension ceilings. Intergenerational redistribution arises from the fact that most pension provision is financed through the pay-as-you-go mechanism, whereby the working age population finances the pensions of retirees. As generational cohorts differ in size and systems are reformed, redistribution between generations takes place.

To share more evenly the costs of ageing and pension provision among generations, countries have introduced both systemic and parametric reforms to their pension systems. Also, the importance of funded private supplementary occupational pensions is increasing. Another tool for addressing intergenerational redistribution is automatic stabilizers that automatically trigger measures for controlling the expenditure of a pension system. Depending on their design, automatic stabilizers can defend the interests of future generations in the face of population ageing by scaling back pension promises.

An important issue in intergenerational redistribution is the pension contribution rate. If the contribution rate is higher for one generation but the benefit is not, wealth is redistributed from one generation to another. Queisser and Whitehouse (2006) describe an actuarially fair pension system as one that equalises lifetime individual pension entitlements to lifetime individual pension contributions. By definition, therefore, there is no redistribution towards or away from any individual. Some countries have sought to move

<sup>2</sup> If a country has different regimes for private sector workers, civil servants and the self-employed, the focus in this paper is on the system for private sector workers.

in this direction by reforming their pension systems towards defined contribution (DC).

However, looking solely at the contribution rate might be a bit misleading. Pension systems need new contributors, and therefore individuals with children could be understood as having contributed to the pension system “in nature” (Gosseries 2005). Also, the state’s role should be analysed as it can strengthen the financing of the pension system by targeting tax money for the system. Unlike contributions that are paid by the employed and employers, taxes are paid by the whole population, including retirees, thus sharing the burden more evenly across generations.

Although an analysis of the impact on labour markets of pension systems falls outside the scope of this paper, it is important to acknowledge that high pension contribution rates might hinder the employment of young people. Similarly, high public pension spending might limit the scope of other state welfare programs such as early childhood or active labour market policies due to scarce resources.

## *2.2 Intergenerational redistribution and fairness according to the Musgrave rule*

The focus of this study is pension system design, and in particular its financing structure and intergenerational redistribution. To be able to assess the intergenerational fairness of pension policy in this context we apply the Musgrave rule (1981) on risk sharing between different generations. The Musgrave rule provides a useful framework and workable criteria for revealing differences in cross-country comparisons of pension institutions. It has also been widely referred to as a rule-of-thumb when discussing the change in the ratio of pension contributions to retiree’s benefits, and the challenges of keeping these in balance in the face of demographic and economic pressures (see e.g. Myles 2002; Schokkaert and Van Parijs 2003; Schokkaert et al. 2017).

In its simplest form, the Musgrave rule states that a pension system is intergenerationally fair if the ratio of per capita benefits to retirees to per capita earnings of workers (net of social security tax) is fixed (Musgrave 1981: 109). In other words, the relative economic positions of retirees and the working population should remain unaffected by demographic or economic developments. At the system level, this goal can be achieved to different degrees with different institutional manifestations of the intergenerational distribution of risk. Musgrave divides pension systems into two main categories: in a fully funded system, each generation finances its own retirement and no intergenerational redistribution or contract is needed. In a PAYGO-system, in contrast, “each working generation assumes the responsibility of supporting its retirees while being assured of similar treatment by the next working generation”, thus it rests upon an intergenerational risk-sharing contract (Musgrave 1981: 104). The PAYGO systems can, in turn, be divided further into five sub-categories according to the form of the intergenerational contract: i) ad hoc provision, ii) fixed replacement rate (FRR), iii) fixed contribution rate (FCR), iv) fixed replacement rate, adjusted (FRRA), and v) fixed relative position (FRP) (ibid.). The type of pension system plays a decisive role when determining how macro-level changes such as changes in aggregate

productivity or the relative numbers of workers and retirees (i.e. the dependency ratio) affect risk-sharing and redistribution between generations.

The Musgrave framework is based on the simplification that the population within a country at a given moment is divided into retirees and employees, the ratio of which is defined as the dependency ratio. The framework has two exogenous “shock” variables: productivity and population. The first contingency is that of increasing productivity, which Musgrave defines as a situation where the wage rate of the working population exceeds the past wage rate of retirees (Musgrave 1981: 106). For pension systems with different designs, this means differing outcomes. An increase in productivity usually means less pressure to increase contributions.

In theory, higher productivity could compensate for the second key contingency: a demographic shift. Musgrave defines population growth as a situation where the ratio of workers to retirees increases (Musgrave 1981: 107). Demographic ageing is affecting population growth quite drastically in many countries as fertility rates decline and longevity increases. Consequently, an increasing dependency ratio puts severe pressure on intergenerational fairness in terms of cost- and risk-sharing.

In the face of demographic, financial and macro-economic shocks such as ageing or changes in the employment rate, pension systems can adapt in different ways. These methods include, for instance, changing the contribution rates or the level of pension benefits. Depending on the system, only some of the methods are applicable. So, for instance, with a defined contribution (DC) system, the contribution rate is fixed, meaning that the system balances itself by adjusting the benefits. In the case of a (pure) defined benefit system (DB), the adjusting factor is, in contrast, the contribution rate, while the pension benefit remains untouched. These risk adjustment mechanisms have different effects on the different generations involved in the pension system. This deficient risk-sharing with pure DB or DC systems is, according to Musgrave (1981), unacceptable and unfair, and as a result, the systems are politically unsustainable under conditions of population ageing (and economic shocks). Moreover, according to the Musgrave rule of intergenerational fairness in pension systems, the (unexpected) risks that affect the pension system should be shared between generations in a way that evens out the negative effects and provides for the fixed relative position of retirees and the working population.

The Musgrave rule has some limitations, too. First, the Musgrave rule says nothing about what the relative position of retirees to workers should be. It simply provides a rule for allocating the costs of an unexpected change between generations once an acceptable ratio has been established (Myles 2002). Schokkaert et al. (2017) also criticize the rule as an incomplete response to the challenges of intergenerational equity and of intergenerational risk sharing: First, while it indicates how the risk of demographic changes should be borne by different generations, it does not resolve the problem of the correct level of pensions to wages. Second, it remains silent about the age of retirement around which the Musgrave ratio should be stabilized. As an amendment to the Musgrave rule, Schokkaert et al. (2017) propose that the promise made to young generations

should be conditional: their pensions, as a proportion of the labour earnings of the active population, may only be guaranteed under the condition that they adjust their retirement behaviour along the increase in their life expectancy (see also Birnbaum et al. 2017).

It should also be noticed that these considerations strictly apply only to pay-as-you-go systems. Intergenerational risk-sharing mechanisms are different within funded schemes. In the case of a funded DC scheme based on individual accounts, the retirement benefit of a worker is equivalent to the capital accumulated by his/her own contributions adjusted to his/her life-expectancy at retirement. These schemes are therefore intrinsically unable to achieve intergenerational risk sharing. However, within funded DB schemes, intergenerational risk-sharing mechanisms are similar to those of the pay-as-you-go DB schemes, with increasing longevity leading to increased liabilities and ultimately increased contribution rates without affecting pension benefit levels, although they are less vulnerable to increases in dependency ratios (Schokkaert & van Paris 2003). Furthermore, the Musgrave rule is easy to apply to government-dominated pension systems, but less so to systems where private occupational and individual accounts proliferate (Esping-Andersen and Myles 2006).

### 3 Pension system design and intergenerational redistribution in eight European countries

#### 3.1 Differing institutional design

The Musgrave framework serves as a conceptual basis for the following analysis of how pension systems differ with regard to risk sharing between the working population and retirees. We include eight European countries – Austria, Denmark, Finland, France, Germany, the Netherlands, Sweden and Switzerland – in our analysis to represent different welfare regimes or social insurance models that apply different institutional solutions in their pension systems. They thus represent pension systems with (potentially) different intergenerational redistribution effects.

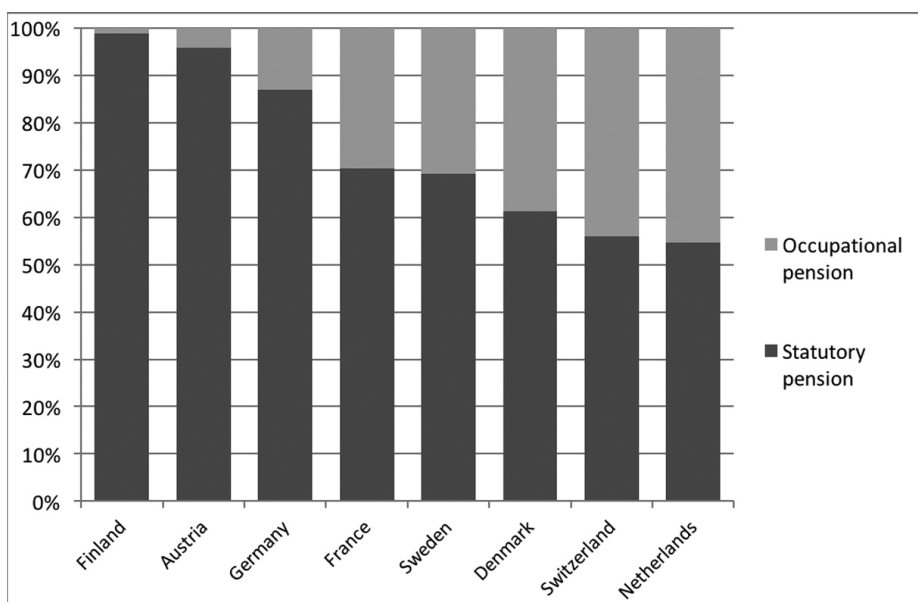
Pension systems differ by design and are shaped by culture and institutions. Approaches to intergenerational fairness and risk mitigation are closely related to overall design choices. Issues such as the role and design of the public and private pension system, DB or DC schemes, funding or PAYGO and other characteristics of pension systems play a crucial role (see e.g. Kruse et al. 1997; Kruse 2000; Sørensen et al. 2016). Musgrave's original focus is on public pensions, but pension provision in most of the European welfare states is a varying mixture of public and private schemes. Therefore, intergenerational fairness should be evaluated against the framework of overall pension provision, as we have done in this paper.

In this study, we investigate public first pillar schemes and occupational second pillar schemes. We exclude private pension saving, third pillar schemes, from the scope of our study. These do not directly produce intergenerational risk sharing due to their individualized nature, although they might if there are significant tax incentives

for supporting these products.<sup>3</sup> By occupational pensions we refer to pension arrangements that are traditionally negotiated between labour market parties who decide on the crucial features of the system. By public pensions we refer to pensions that are statutory and usually involve parliamentary decisions with respect to major changes to the system. By using this categorization we can roughly divide countries into two groups: single pillar and multi-pillar countries. Our division of countries is based on contribution incomes and the coverage of employees in collective occupational pension schemes. Data are taken from a recent study (Vidlund et al. 2016).

The importance of occupational pensions varies when the focus is the aggregate level of contribution incomes (Figure 1). Occupational pensions are significant in Denmark and the Netherlands, which are prototypical Beveridgean countries, and where public pensions provide a universal flat-rate pension. They are also of significant importance in Switzerland where, despite being earnings-related, first pillar pension scheme provide in practice only flat rate benefits to all, whether they work or not. In Sweden and France the role of occupational pensions is to complement earnings-related public benefits.

Figure 1. Share of occupational and statutory pensions (2014) (% of total contribution income)



Source: Vidlund et al. 2016.

<sup>3</sup> The choice of the public-private mix has in general significant implications for the issue of intergenerational risk sharing. However, from an intergenerational perspective, the public-private mix in pension schemes is not an issue per se if appropriate regulation obliges the collectively privately funded schemes to integrate an intergenerational risk-sharing element in their set-up (Schokkaert and Van Parijs 2003).

In Austria and Finland, the scope and generosity of statutory pensions have left little room for the development of occupational pensions. Germany belongs to the same group, although the role of statutory pensions is diminishing and it has been projected that occupational pensions will grow in importance.

In the multi-pillar countries of our sample, occupational schemes cover around 90 percent of employees. In Switzerland and France occupational pension schemes are mandatory. In Sweden, Denmark and Netherlands occupational schemes are not mandatory, but in reality are part of collective labour agreements and therefore most often included as de facto mandatory arrangements.

### *3.2 Distribution of risk between the working age population and retirees*

While Musgrave's approach is a theoretical one with highly stylized pension system characteristics, it gives us a good method and a starting point for analysing the more intricate and complex pension systems of today in terms of the distribution of risks between the generations. Therefore, following Musgrave's logic, we assess how these macro-level economic and demographic shocks affect workers and retirees in a selection of European countries that have different features of intergenerational redistribution in their pension systems.<sup>4</sup> More specifically, with every country we have included the main private sector statutory and occupational pension system. This helps us to understand the total intergenerational aspects of pension provision. However, as was stated in the previous section, in Austria, Germany and Finland the role of occupational pension provision is of minor importance so in these cases we have only analysed statutory schemes. As regards the direction of macro-level shocks, we assumed an increasing dependency ratio, in which the share of retirees rises due to, among other things, ageing.<sup>5</sup> In addition, we assume increasing productivity and therefore increasing wages.

Table 1 indicates the corresponding direction of the change (if any) in pension contribution rate (A), benefit per retiree (B), average wages (net of pension contributions) (C) and the resulting benefit ratio (B/C) in statutory and occupational schemes when the dependency ratio and productivity rises. The change in the benefit ratio thus indicates the corresponding intergenerational effect (i.e. which group stands to benefit or lose because of increasing wages or dependency ratios). A positive benefit ratio implies that the retirees benefit from the change while a negative ratio implies an improvement in the relative position of the working generation.

4 Our analysis focuses purely on pension systems so we therefore exclude from our assessment the impact that a decline in employment or wage sum might have on the overall economy in which the pension system operates.

5 This corresponds to Musgrave's concept of population growth.

Table 1. Effect of changes in productivity and population according to different pension system designs

	Statutory				Occupational			
	Contribution rate (A)	Benefit per retiree (B)	Net wage per worker (C)	Ratio B/C	Contribution rate (A)	Benefit per retiree (B)	Net wage per worker (C)	Ratio B/C
Denmark								
Increasing productivity	0	+	+	0	0	0	+	-
Increasing dependency ratio	+	0	-	+	0	0	0	0
France								
Increasing productivity	-	0	+	-	0	+	+	0
Increasing dependency ratio	+	0	-	+	0	-	-	0
Netherlands								
Increasing productivity	0	+	+	0	0	0	+	-
Increasing dependency ratio	+	0	-	+	0/+	0	0/-	0/+
Sweden								
Increasing productivity	0	0/+	+	-	0	0	+	-
Increasing dependency ratio	0	-	0	-	0	0	0	0
Switzerland								
Increasing productivity	0/-	0/+	0/+	0	0	0	+	-
Increasing dependency ratio	+	0	-	+	0	0	0	0
Austria								
Increasing productivity	-	0	+	-				
Increasing dependency ratio	+	0	-	+				
Finland								
Increasing productivity	-	0	+	-				
Increasing dependency ratio	+	0	-	+				
Germany								
Increasing productivity	0	+	+	0				
Increasing dependency ratio	+	0/-	-	+				

Note: (+) indicates increase, (-) indicates decrease, a zero indicates no change and (/) indicates a partial effect.

### Increasing productivity

A look at how the systems react to increasing productivity and a constant dependency ratio shows the mechanism to be quite straightforward with countries where pension provision is concentrated in statutory schemes; i.e. in Austria, Germany and Finland. The rise in wages should result in lowered contribution rates in Austria and Finland, as the systems are of the DB-PAYGO –type and the indexation mechanism does not transfer wage increases to benefits.<sup>6</sup> As Germany's scheme resembles Musgrave's FRRA-type plan with benefits increasing according to wages, the contribution rate remains constant in this case. The total result (benefit ratio) is negative with Austria and Finland, which means that workers benefit from increases in productivity. In Germany, the total result remains constant and workers as well as beneficiaries benefit from increases in productivity.

6 In Finland, the indexation mechanism includes 20 per cent weighting on the development of wages, but for our purposes we consider this entirely a price-, not wage-index.

In countries where the provision rests on both statutory and occupational schemes, the results are somewhat more complicated. In the Netherlands, Denmark, Switzerland and Sweden, rising productivity does not influence the contribution rates of statutory schemes, albeit the mechanism varies between the countries. As these schemes are DB-PAYGO schemes (we consider national pension schemes as DB schemes) except for in Sweden, with its full or partial wage indexation, the contribution rate and the benefit ratio remain constant in most cases, with both parties benefitting from increasing productivity.

In Sweden, the statutory system is of the NDC-type (FCR), and with the contribution rate fixed, rising wages result in an increase in net wages for workers and increased benefits for retirees, although of a lesser amount due to the indexation mechanism not taking wage increases fully into account (wage development reduced by a fixed rate of 1.6 p.p.). Therefore, the total result favours the workers as the benefit ratio is negative.

With multi-pillar countries we must take into account occupational pension provision in order to grasp the total effects of increases in productivity. As occupational pensions are in general becoming increasingly fully funded DC plans, intergenerational redistribution is weakened. With the exception of France and the Netherlands, second pillar pensions in our comparison are also mostly (in Sweden and Switzerland) or entirely (Denmark) based on DC plans, and as such this is also how they work, as illustrated in Table 1, above.

In Sweden, where both statutory and occupational pensions are tightly linked to contributions, the schemes work in the same direction by strengthening the relative position of workers in times of rising productivity. That is, increasing wages result in an equal rise in the net wage, while the pension benefits are adjusted only partly in the statutory scheme, while within the occupational schemes they remain as they are. As a result, the risk-sharing and mitigation capacities of the Swedish pension system have been reduced (see e.g. Sørensen et al. 2016).<sup>7</sup>

The Swedish system is in clear contrast to Denmark, where the difference between the statutory and occupational schemes mitigates the effects of rising productivity on the aggregate level. As emphasized by Sørensen et al. (2016), the design of overall Danish pension provision can now be situated somewhere along the continuum between redistributive basic pension and DC.

The situation is different in the Netherlands, where the occupational schemes are still mostly DB-schemes (with some DC-characteristics). However, although the statutory scheme is also DB, financing methods are different as the occupational schemes are fully funded while the statutory scheme is purely a PAYGO-scheme. This means that, in contrast to the statutory scheme, the contributions in occupational schemes are used to finance the liabilities of the same working generation that pay

7 This has also raised questions about whether intergenerational risk-sharing via guaranteed pensions is sufficient (Barr 2013).

the contributions. The benefits in the Dutch pension funds are also usually linked to funding status and only secondarily to the development of wages.<sup>8</sup> Therefore, the result is that increasing productivity neither influences the contribution rate in the occupational schemes, nor in the statutory scheme. The benefit ratio is therefore negative as workers benefit from increasing wages through the constant contribution rate. Taking into account the statutory scheme's constant benefit ratio, the total pension provision slightly favours workers in times of rising productivity.

In France, the statutory pension is a PAYGO-scheme with defined benefits and thus, in theory, gains in productivity could decrease the contribution rate, while on the other hand the cost of the increasing dependency ratio is borne by the working population.

Occupational pension schemes (Agirc & Arrco) were designed as fixed contribution schemes. The schemes are PAYGO with points-based benefits. Theoretically, both pensioners and the working-age population share the profits if productivity increases, while on the other hand they equally share a weakening position if the dependency ratio increases. However, social partners, as plan administrators, have discretion to adjust or increase contributions to improve the financial situation of the system (Myles 2002). This has led to a situation in which the level of contributions has been increased to avoid reductions in benefits (Moore 2001). However, since 2013 part of the decrease in productivity has been transferred to pensioners as the revaluation of points has been weakened to follow consumer price indices, or less (ibid.).

#### *Increasing dependency ratio*

Under the assumption of an increasing dependency ratio and constant productivity contingency, all countries except Sweden face pressure on increasing public pension contributions and therefore see improvements in the relative position of retirees. Occupational schemes, on the contrary, usually serve to mitigate this effect.

In Sweden, the contribution rate does not react to an ageing population because of the NDC (FCR) character of the system, but the benefit level does – in effect placing the burden on the retired generation. This means that the intergenerational mechanism favours workers, as the benefit ratio is negative. The situation is, however, different within occupational schemes. As these are mostly fully funded DC schemes, the increasing dependency ratio does not affect contributions or benefit levels and the benefit ratio remains constant. Overall, the adverse effects on retirees in the statutory scheme are somewhat mitigated by occupational schemes.

In Germany, the pressure also shifts to retirees but only by a reduced amount. The contribution rate is adjusted along developments in the insured wage sum and pension expenditure, and so it rises as the dependency ratio increases, but the indexation mechanism (through the so called 'sustainability factor') takes into

<sup>8</sup> For example, the largest occupational scheme, the public sector ABP, has not indexed pensions since 2009 due to the funding status remaining under the indexation threshold. However, applicable wages have grown almost every year (see abp.nl).

account the change in the relative numbers of insured and beneficiaries, thereby mitigating the ageing effect. Through this mechanism, the additional financial burden resulting from the demographic shift is placed on the beneficiaries, but only with a weight of 25 per cent. This means that the system places greater demands on the contribution rate and today's younger generation than on adjustments of the pension level. However, while the benefit ratio remains positive (i.e. favourable to retirees), the indexation mechanism, together with the rising retirement age, reduces the need to adjust the contribution rate when the dependency ratio weakens (see e.g. Börsch-Supan et al. 2003; 2007.).

Similarly to in Germany, the Finnish system shifts some of the burden of the increasing dependency ratio to (new) retirees by applying the life expectancy coefficient to the new benefits. Instead of working through the indexation mechanism, the coefficient reduces the amount of starting monthly benefits if there is an increase in life expectancy. It should be noted that this mechanism does not take into account the change in the dependency ratio through different cohort sizes, as is the case in Germany, and also the fact that as it only reduces new benefits, its effect on the aggregate contribution and benefit rates is limited. In addition to the life expectancy coefficient, the retirement age will be linked to life expectancy after 2027 with the effect of reducing the contribution burden in the future. Overall, the Finnish system behaves more like a traditional DB-PAYGO system, and in an increasing dependency ratio environment it is the working generation that bears most of the burden (see the positive benefit ratio sign in the table).

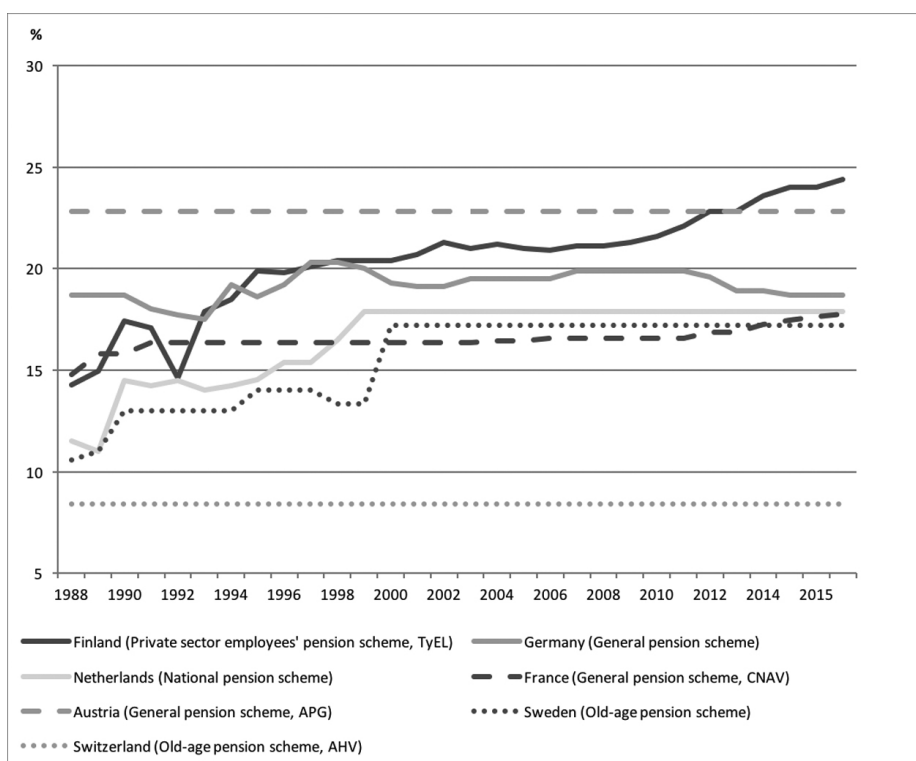
In Switzerland and Denmark, the statutory schemes adjust to an increasing dependency ratio by increasing contribution rates while leaving benefit levels unaffected, thereby strengthening the relative position of the retirees. However, as the occupational schemes are of the DC-type, they play, similarly to in Sweden, a mitigating role, leaving the contribution rate and the benefit levels unaffected. Overall, when taking into account the statutory and occupational schemes, the benefit ratio slightly favours retirees.

In the Netherlands, the increasing dependency ratio results in an increase in the contribution rate for the working generation in the statutory scheme, while leaving benefits unaffected, thus favouring retirees. Occupational schemes, however, slightly mitigate this effect. Even though the occupational schemes are of the DB type, the contribution rate is affected by the increasing dependency ratio only as much as the change in the ratio is due to an increase in life expectancy. If the change is due to different sized cohorts, the contribution rates remain mostly as they are because the working generations primarily finance their own benefits through pre-funding. Overall, the Dutch pension system favours the retiree generation in times of an increasing dependency ratio as the benefit ratios are positive for the statutory system and zero or positive for the occupational schemes.

### 3.3 Development of pension financing and intergenerational redistribution

Challenging demographic circumstances for the pension systems should have resulted in increase in public pension contributions for almost all the countries under comparison, as shown in the previous section. However, it appears that an increase in contribution rates is no longer as feasible an option as it may have been some decades ago. The recent developments in the contributions levied from employees and employers verifies this finding (Figure 2; see also OECD 2007; 2011). For example, in Austria and Switzerland the contribution rate has stayed at its current level for close to 30 years. Overall, it seems that a ceiling for public contribution rates has been reached in many countries.

Figure 2. Public pension contribution rates (1988–2016) (%)



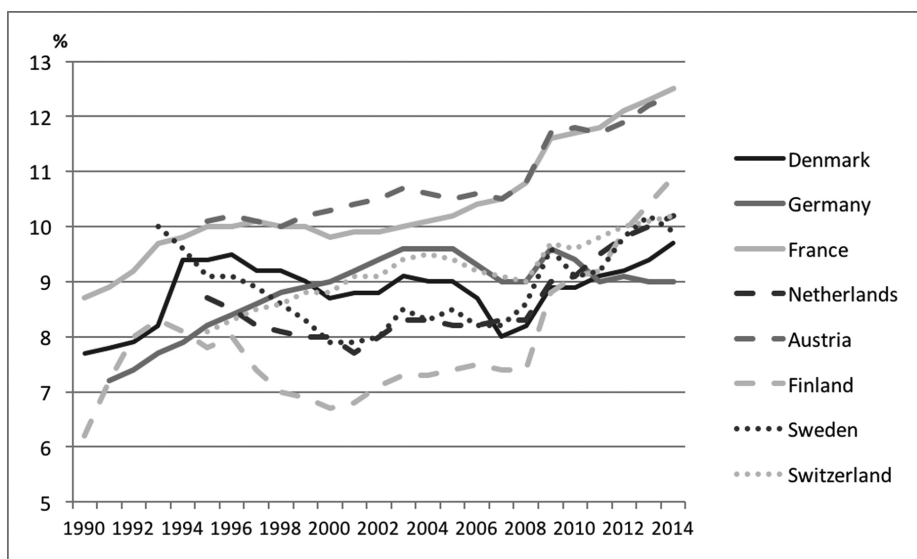
Source: Vidlund et al. 2016.

The phenomenon of constant contribution rates would be easily explained if the schemes were DC schemes with fixed contribution rates such as Sweden has had since 2000. However, public schemes are DB schemes in principle adjustable pension contribution rates. However, despite DB-type schemes, countries have shown limited development in terms of contributions. In the Netherlands, the government decided

to cap the contribution rate as early as in 1997. Likewise, in Germany a ceiling for the contribution rate was imposed by an act in 2002 with the passing of the Riester reform. In Finland, projections for recently established pension reform indicate a stable contribution rate for the forthcoming decades (Tikanmäki et al. 2016).

Limited contribution rates with DB schemes would imply adjusted benefit levels that control for the adverse effects of ageing. This would have meant that the additional burden would fall on retirees. However, as can be seen from Figure 3 below, this has not been the case, even though adjustments to future benefits have decreased the need to increase contributions.

Figure 3. Development of old-age pension expenditure (1990–2014) (% of GDP)

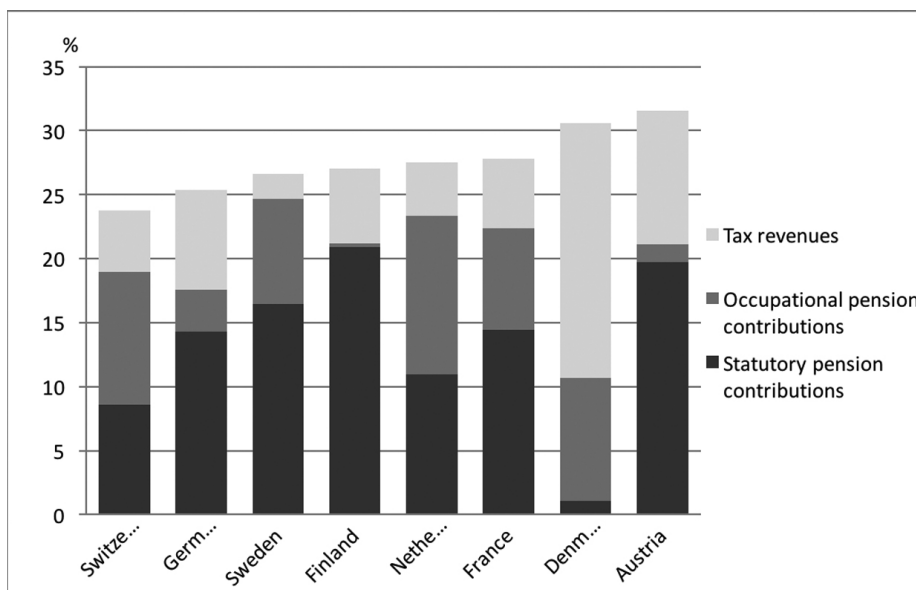


Source: Eurostat 2017.

A closer look at financing structures reveals that the public contribution rate is not a sufficient indicator for describing the total costs and the distribution of the burden of pension provision. If we ignore tax revenues as well as contributions to occupational pension schemes, we lack important elements that affect intergenerational redistribution.<sup>9</sup> Depending on the country, tax revenues cover a significant share of total costs, and similarly, occupational pensions play a large role in pension provision through their substantial share of pension contributions (Figure 4). The higher the share of occupational pensions, the more limited is the scope for intergenerational risk sharing, presuming the latter are DC, as they are in most cases.

<sup>9</sup> Furthermore, the use of reserve or buffer funds reduces the need to collect more taxes or to raise contributions, as well as the need to cut benefits.

Figure 4. Total pension contribution income in relation to compensation of employees (2014) (%)



Source: Vidlund et al. 2016.

The role of tax financing is significant in several countries, depending on the structure of pension provision. It is usually connected to financing minimum pensions, as is the case with the national pension scheme in Denmark. However, the importance of tax or general budget financing is also evident in Austria where additional financing needs for the general pension scheme will have to be met through greater government participation (Knell 2005).

Some countries have increased the use of tax revenues in pension financing. For example, in Germany the state's share amounted to nearly 20 per cent of total public pension expenditure in 1991, and reached more than 30 per cent in 2014 (DRV Bund 2015). In Germany federal transfers (Bundesmittel) are used to cover the pension costs arising from German reunification, as well as unpaid periods (BMAS 2016). The purpose is also to limit the increase in labour costs, which is also the case in Switzerland (IMF 2001).

Use of tax revenues in the financing of pensions is one measure for reallocating costs, not only among the working-age populations but also among the retired. Changes in financing may influence intergenerational equity (e.g. taxes are also paid by pensioners, thus increasing risk sharing). In the Netherlands, the share of taxation increased significantly after the capping of the contribution rate. Since the turn of the millennium, the state's share has increased from around one tenth to close to one third of public expenditure. Several committees and political parties

have even suggested further increases in order to broaden the base for statutory pension financing, to include the elderly (Goudswaard et al. 2015).

## 4 Discussion and conclusion

In this paper we have assessed key features of pension systems and their changes that affect intergenerational redistribution and fairness in eight European welfare states. According to the Musgrave rule, the risk of pension provision for securing old-age income should be allocated evenly between generations, and in an ideal case, the relative position should remain constant. Musgrave's approach is a conceptual one and does not recommend an "ideal" model for a pension system. A fair system, according to Musgrave's principles, would be an intermediate solution in-between the DB and DC schemes which appropriately adjusts benefit levels and contribution rates in the face of economic and demographic risks.

We have extended Musgrave's original framework to include overall pension provision, which in many countries consists of both public and occupational pension schemes. Our results show that countries' pension systems currently have different ways to distribute the consequences of gains in productivity or increases in the dependency ratio between pensioners and workers.

In public pensions, half of the examined countries (Denmark, the Netherlands, Switzerland and Germany) split the gains in productivity evenly between workers and pensioners. This is due to indexation rules that link benefits to wages. In the rest of the countries (Sweden, France, Austria and Finland) pensioners lose out in comparison to workers. From these countries, pensions are not indexed to wages except for in Sweden, where despite the partial link to wages, workers benefit the most as a result of the NDC system with a fixed contribution rate. When taking into account occupational pensions, the relative position of pensioners declines. Overall, the position of a pensioner depends on the relative amount of public and occupational pensions in his or her total pension. Therefore, for instance, a pensioner with only a public pension in the Netherlands, Denmark and Switzerland benefits the most from a rise in wages, whereas a pensioner with a high share of occupational pension benefits relatively less.

Regarding population ageing and public pensions, only in Sweden is the relative position of a pensioner compared to the average worker weakened because of the NDC system that places the burden on retirees. In Germany, the pressure of ageing is also transferred to pensioners, but only to a limited extent. In all the other countries, the relative position of pensioners strengthens as contributions must be increased while benefits are left unadjusted. Occupational pensions are mostly neutral in this respect, except for in the Netherlands where ageing can lead to increased contributions.

One of the key findings of our analysis is that contribution rates do not strictly follow growth in pension expenditure, as could be assumed on the basis of the analysis described above. In many cases public pension contribution income is not sufficient to cover benefit payments, although countries have implemented reforms that limit the growth of public pension expenditure. For example, Germany, Denmark, Finland and France have met this challenge by increasing the retirement age, as well as introducing automatic adjustment mechanisms in a similar manner to the majority of OECD countries (see, for example, OECD 2015).

As we have shown, contribution rates have remained constant for a long period, despite increasing expenditures. In Finland and Sweden the deficit can be covered internally (i.e. by the use of funds within the pension system). Other countries have opted for increasing the use of tax revenues or even increasing public debt.

However, the use of tax revenues can be seen as a symptom of an underlying unfair pension system structure. According to Musgrave (1981: 109), DB schemes (FRR or FRRA) are an uneasy and politically unstable option as the basis for pension schemes, especially in an environment of declining population growth. Indeed, the development in the Dutch national pension scheme shows that solely increasing the burden of the working population is no longer seen as a fair option. Instead, tax revenues are increasingly used to maintain financial sustainability and share costs with the elderly.

Whether the increasing use of tax revenues is the best practice for promoting intergenerational fairness is not so clear. Revenue-oriented adjustment may lead to unwanted intergenerational redistribution, placing the main share of the burden on younger generations. First, adjustment is limited to the revenue side and may not necessarily translate into any change on the benefit side. Second, financing will increasingly shift from contributions to taxes, thereby decreasing the transparency and the degree of actuarial fairness, in clear contrast to one of the current reform trends in pension insurance provision.<sup>10</sup> This arrangement, however, implies intergenerational consequences. The exact nature of the intergenerational sharing of this burden is also dependent on which tool – taxation or debt – is used to finance the government's pension transfers (Knell 2005).

We can also observe fairness problems with intergenerational redistribution at the 'opposite end' of pension design. The problem with a pure DC (FCR) system is that it places the entire risk on retirees, which is unacceptable and decreases the political viability of the system, according to Musgrave (1981: 104). This seems evident, for example in Sweden, where the impact of benefit cuts in the public scheme has been

<sup>10</sup> Actuarial fairness proposes that it is fair that each risk group pays for their own risks. The concepts of actuarial fairness and the solidarity principle have historically competed in policy making and the weight of these principles differs by schemes and in overall pension provision depending on the institutional design of pension schemes. There is also empirical evidence (see Schokkaert 2004) that workers and their organizations are more willing to accept a lower net wage as a result of higher taxes if there exists an obvious link between contributions and benefits.

softened with tax deductions for retirees, as well as changes to indexing – or, more precisely – to the balancing mechanism (Anderson & Backhans 2014; Regeringens proposition 2015).

In general, according to system characteristics of the countries under review, pension systems address intergenerational equity to varying degrees. This is evident in the non-pure nature of the schemes, as well as the fact that the total pension package in each country usually includes pensions from different systems, including occupational DB and DC schemes. The current trend in occupational pension design to move from DB to DC implies less intergenerational risk sharing within the pension system, and less redistribution from workers to retirees.

Improving intergenerational fairness is increasingly on the agenda of today's pension policymakers. Risks are more evenly distributed across generations as schemes are no longer pure DB. However, our results show that current retirees are still rather well protected against demographic ageing. Another observation is that countries that rely on multi-pillar systems have less scope for risk sharing on an aggregate level. Our analysis also shows the constraints of the traditional DB/DC dichotomy, as many pension systems are turning towards a hybrid version that includes elements of both.

However, the need to adapt pension schemes to increases in life expectancy remains, regardless of the type of schemes in both single and multi-pillar countries. In order to ensure stable retirement incomes, longer working lives are needed to ensure that decent pensions are paid. As the Musgrave rule only considers the relative position of retirees and workers, an increase in retirement age is equitable from an intergenerational perspective and consistent with the Musgrave rule as it cuts both ways: both reducing time in retirement, and simultaneously raising contribution years. An issue which is ignored by Musgrave but discussed in more detail by Esping-Andersen and Myles (2006) is that such an approach may easily produce intra-generational injustice since life expectancy is positively related to lifetime income.

Another issue to bear in mind is that the challenges of intergenerational redistribution and fairness cannot be mitigated by pension systems alone, as pensions mainly reflect labour market outcomes. The requirement of longer careers for adequate pensions seems difficult to fulfil due to the current labour market situation for the younger cohort. Although pension systems cannot resolve all the problems resulting from inequalities in the labour market, they can by design mitigate and soften individual life-course impacts and promote fair intergenerational redistribution to some extent.

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# Conflict or Fair Deal Between the Generations?

## Alternative economics for pensions<sup>1</sup>

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Manuscript received: 29 June 2017.

Modified manuscript received: 26 October 2017.

Acceptance of manuscript for publication: 15 November 2017.

**Abstract:** For thousands of years, our ancestors operated a pension system that modern economists have declared obsolete, and which a new system has been introduced to replace. However, this new system is beginning to go bankrupt, while the maintaining of the old by the young is increasingly becoming a battle between generations. In other words, the modern pension system – it would seem – has not solved, but exacerbated the pension problem. But the old principle can still be applied, since the upcoming generation does not maintain future pensioners for nothing. Future transfers to the latter by the young have been preceded by transfers from that older generation towards the young. This means that the elderly are justified in demanding a pension from the young, but only those to whom the young owe a debt, and only to the extent of that debt. Having recognised this, we can lay the foundations for a new pension system based on the equitable settling of accounts between generations, which in principle will be similar to the old system, but which provides solutions that are more characteristic of the modern system.

**Keywords:** pension reform, social contract, human capital

## Introduction

The economics of pensions seems simple and logical, but it is problematic because we can derive from the situation that we may leave a huge (equal to some years' GDP) pension debt for (perhaps yet unborn) children and grandchildren, which can also be interpreted as meaning that greedy old people are exploiting the young. Furthermore, the whole pension system and the pension economics that support/explain it are a very new phenomenon – a product of the twentieth century. Before this time there was no system of this kind, although pension-like solutions did exist. But these earlier solutions did not produce the contradictions that the present system does. So the obvious question arises: is it inevitable that the system should function in this way? It is only possible to establish this type of modern pension system along the same principles? Or are only funded pension systems reliable, and should we forget about pay-as-you-go systems?

<sup>1</sup> The article is based on the paper presented at the "Institutional reforms in ageing societies" conference, Budapest 8-9 June 2017

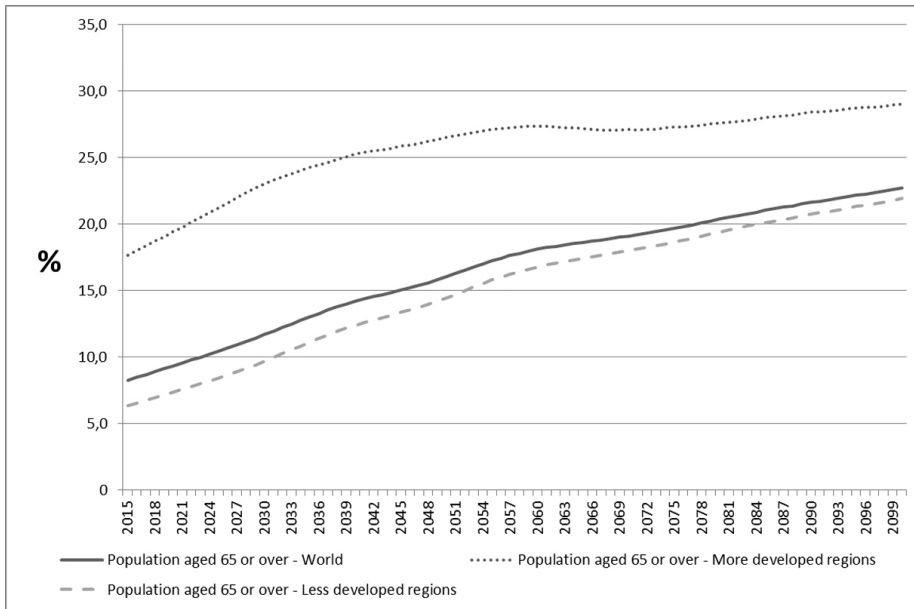
Examination of the topic in detail suggests that traditional pension-like solutions provide the key to present-day problems. Such systems were well designed: parents brought up their children (i.e. they provided them with quantifiable transfers), and children supported their ageing parents (i.e. they gave back these transfers via reverse transfers).

In the present pension system, it is very peculiar that the problem is formulated in such a way that the elderly are 'exploiting the young'. It is strange because the most important 'capital' of young people – their knowledge and abilities – were established with the financial help (and other transfers) of older people. So it is logical to make a settlement between the two parties, and one possible type of the latter involves a kind of contribution payment on the part of young people. However, in exchange for this contribution, young people should not apply for any reimbursement (e.g. in the form of a pension) later in time if they receive this contribution in advance during their childhood. In other words, an early contribution payment is not commensurate with any right to a later pension. Such payments must go directly to those who contributed to the investment in the human capital that created this capacity for a contribution payment in the form of a pension. Thus, if somebody wishes to receive a pension, they can follow one of two paths (or a combination of these): 1. make an investment into human capital (i.e. bring up children) or 2. accumulate 'material' capital. In other words, youth should not be expected to maintain all old people, but only those who have contributed to their upbringing and through whose efforts the human capital they possess came into existence, and only to the same extent. Approaching the issue from this perspective, the pension system could represent nothing other than a kind of equitable settling of accounts between the generations.

### Increasing burdens on younger generations

According to UN forecasts, by the end of the century the global population will increase such that the proportion of the population that is (now) regarded as old will also increase dynamically, almost tripling compared to the current level. Developed countries are expected to undergo a similarly proportionate increase, but beginning from a much higher level. The percentage of old people will increase from the current level of around 18% to almost 30%.

Figure 1: Projected global population aged sixty-five and over

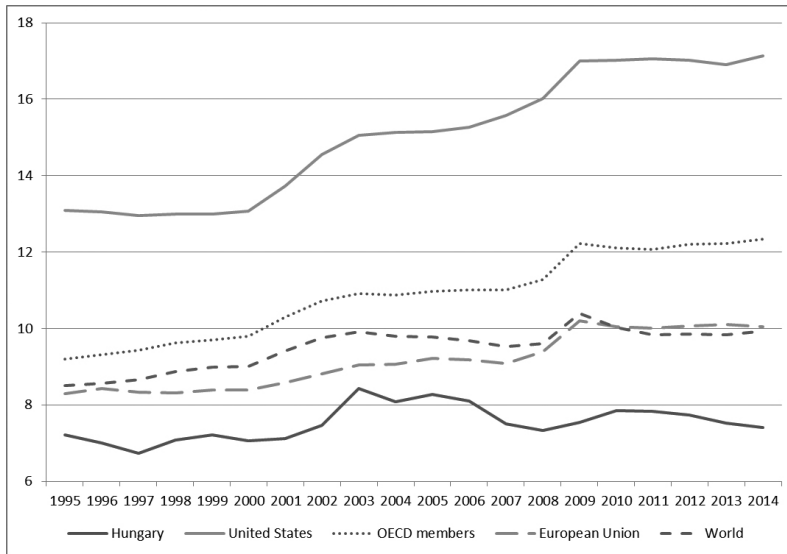


Source: UN, World Population Prospects, the 2015 Revision - <https://esa.un.org/unpd/wpp/Download/Standard/Interpolated/>

If we regard the pay-as-you-go pensions systems that are in place in the majority of developed countries as a given, then the financing of pensions will increase the burden on the youth of today and future generations.

However, the problem of having to maintain an increasing number of old people will not only be felt with regard to pensions, but also by the healthcare system. Here too, the healthcare of old people is usually financed from the taxes and contributions paid into the system by active workers. We are not in possession of dependable forecasts with regard to changes in healthcare expenditure, but it is easy to develop a picture based on the figures below. The proportion of GDP being spent on healthcare, although starting at different levels and to various degrees, is continuously increasing throughout the world.

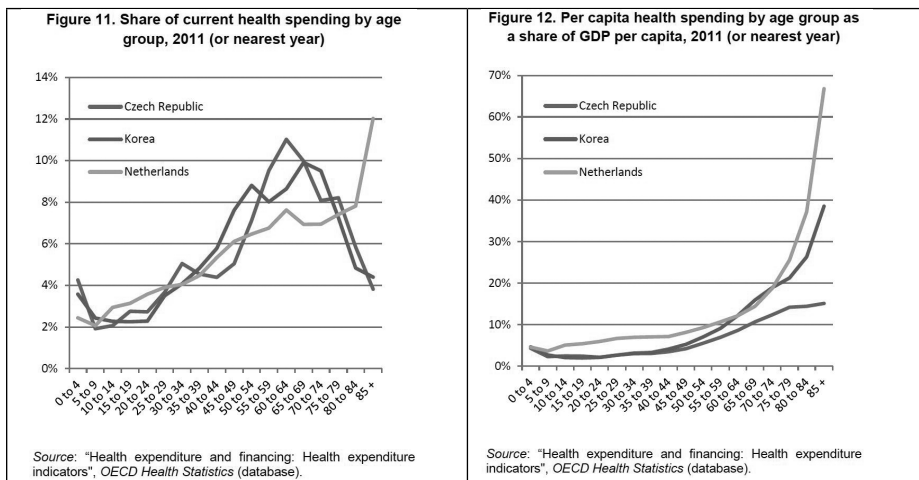
Figure 2: Health expenditure total, % of GDP



Source: World Bank, World Development Indicators, Health Expenditure - <http://data.worldbank.org/indicator/SH.XPD.TOTL.ZS>

Ageing has presumably already played a major role in this increase, and these healthcare costs are expected to increase further as a result of ageing, in view of the fact that – according to OECD data – healthcare expenditure gradually increases with age (OECD [2016]).

Figure 3: Share and per capita health spending by age group in some OECD countries?



2 Please note that Figure 3 is taken directly from OECD (2016).

In summary, if we take the current financing solutions as given, providing for the old will increase the burden on younger generations.

## Social contract between generations

However, the fact that the proportion of old people is increasing, and that of younger generation decreasing, will not necessarily lead to an increase in the burden for younger generations. Things could happen in exactly the opposite manner: young people become more valued as they become rarer, leading to an increase in their incomes, while older people fall into poverty *en masse*. Poverty in old age is not a particularly rare phenomenon during the course of history, and presumably this trend will appear again in future. However, this tendency is expected to be much weaker than it otherwise could be, or rather used to be, within the developed world thanks to the fact that a social contract<sup>3</sup> was concluded between the age groups two or three generations ago. The essence of this Hobbes-Rousseau social contract, as it was called and set down in writing (Samuelson [1958]) by its main ideologist Paul Samuelson, and which includes all generations, including those as yet unborn, is that currently active workers forego part of their income for the benefit of the current older generation, and in exchange, the active workers of the future will also forego part of their income for their benefit when they also become old. This kind of social contract (which replaced an earlier, non-functioning version) was first concluded during the era of the New Deal, became universally popular following the Second World War, and became the modern system of social security. It has two important functions: assuring income in old age (pension system), and financing healthcare in old age (health insurance). A third system aimed at financing nursing in old age is also beginning to gain in popularity in some developed countries (such as Germany and Japan).

## The younger generation's possible counter-strategies

As a result of the above-mentioned worsening demographic tendencies and the social contract currently in effect, the younger generation of today (and future generations) must transfer an increasing proportion of their income to the old people of today (and future generations of old people). It is logical that they regard this as unfair and are fighting against it. What other possibilities exist? From this perspective, it is worth distinguishing between individual and collective strategies.

The essence of the individual strategy is that young people attempt to reduce the pressure on their income that results from ageing. This again may take two forms:

<sup>3</sup> Here I have adopted the metaphor of Samuelson [1958] as the whole pension profession did. Hobbes and Rousseau introduced the concept of the "social contract" in relation to power, but the logical structure is as follows: social classes behave as if there is a valid explicit contract between them, albeit they may not be conscious of it. Samuelson generalised the term "social contract" in this sense, replacing social classes with generations. In this sense, the pension system gives the impression that there is a contract between consecutive generations. The epithet "Hobbes-Rousseau" was used by Samuelson and was adopted by the present author, not considering that the issue was discussed widely after the two original creators of the phrase.

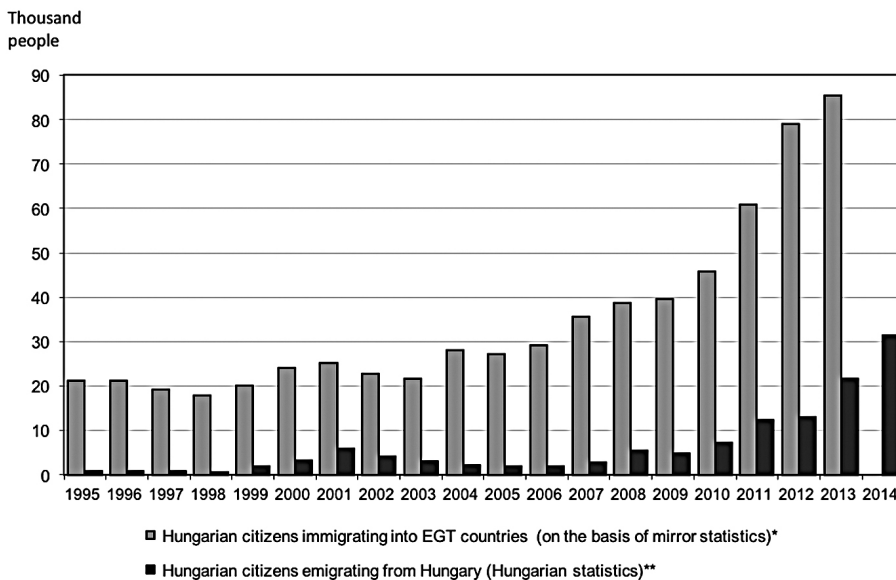
direct and indirect. The direct strategy is aimed at ensuring that individuals need transfer as little as possible to the older generation, while people who adopt the indirect strategy accept this fact, but strive to reduce other burdens to compensate.

The third option, a collective strategy, is to fight to create a new social contract between generations.

## Direct individual strategies

As a result of the whitening of the grey and black economies, it will presumably become increasingly difficult to find loopholes by which to avoid paying taxes and social security contributions. Accordingly, the most effective direct individual counter-strategy to reduce public burdens is emigration, and this phenomenon may indeed be observed from the periphery of the European Union towards its centre. One such example is Hungary, from where emigration towards the more developed countries of the EU is continuously increasing (see Gödri [2015]<sup>4</sup>).

Figure 4: Annual outflow of Hungarian citizens to EGT countries according to "mirror" and Hungarian statistics



Source: Gödri [2015], including: a) Eurostat (2015.05.25) from 2009, complemented by German (DESTATIS) and Austrian (Statistik Austria) data, and Gödri's own calculation; b) HCSO, Demographic Yearbook.

4 The table primarily indicates the change and rough order of magnitude of the trend, because it was only possible to partially supplement missing Eurostat data – Irén Gödri, personal communication.

Furthermore, this primarily involves the younger working generation:

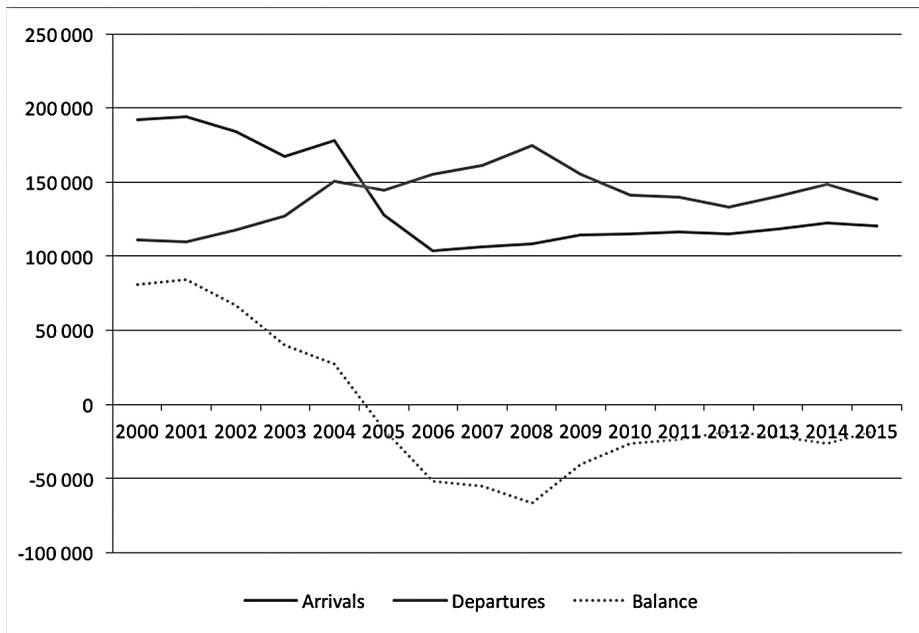
**Table 1:** *Distribution of emigrants from Hungary according to various socio-demographic factors compared to the resident population of Hungary aged 25 to 59 (%)*

Age at time of emigration	Hungarian citizens aged 20-59 living in Hungary	Hungarian citizens aged 20-59 who emigrated after 1989	Hungarian citizens aged 20-59 who emigrated between 1990 and 2009	Hungarian citizens aged 20-59 who emigrated after 2009
Under 20	–	4	7	2
20-29	–	51	55	48
30-39	–	29	27	31
40-49	–	11	9	14
50-59	–	4	2	6
20-39 in total		80	82	79

Source: Blaskó-Gödri (2014)

Naturally, in moderately developed economies like Hungary’s and those of similar countries, the high level of public burdens on income is only one of the reasons for emigration; the more important reason is the actual level of wages, or rather the significant increase that can be achieved through emigrating to a more highly developed country. It may also be observed, however, that one-way emigration also occurs between more highly developed countries: highly trained young people from certain countries are escaping high levels of tax and social security contributions (or an overly balanced pay scale) to countries that rake in lower public taxes (or that provide particularly high salaries to highly trained workers). Germany is often cited as one such country. Official statistics indicate that, during the past decade or so, the balance of migration with regard to German nationals (i.e. people born in Germany), which has always been positive (meaning that the “homeland” attracted people of German origin living abroad), has become negative.

Figure 5: Migration between Germany and foreign countries



Source: Destatis - <https://www.destatis.de/EN/FactsFigures/SocietyState/Population/Migration/Tables/MigrationTotal.html>

According to data from Eurostat, German citizens who emigrate are generally members of the younger generation, and presumably also their children. Some three-quarters of emigrants are younger than forty-five years of age.<sup>5</sup>

<sup>5</sup> As we can see, Destatis and Eurostat figures contain a discrepancy with regard to the total number of emigrants. The probable reason for this is that the two institutions use different definitions, meaning that, to a certain extent, Eurostat "cleanses" the German data they receive - according to Irén Gödri.

Table 2: Emigration by age group, gender and citizenship - Germany (former territory of the FRG until 1990)

Age group	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0-15	23 237	24 710	:	29 299	31 557	22 460	21 629	22 220	19 405	19 185	19 298	17 989
15-19	6 191	6 314	:	6 966	7 139	4 562	4 198	3 679	3 280	3 373	3 737	3 411
20-24	16 202	14 433	:	15 133	16 258	8 655	8 928	8 547	7 533	8 010	8 957	8 224
25 - 29	19 971	19 830	:	23 121	25 828	17 073	16 508	15 664	14 290	14 774	17 559	17 415
30 - 34	18 437	17 200	:	19 470	20 944	15 130	14 634	15 607	13 807	14 388	15 739	15 095
35 - 39	19 481	17 888	:	17 955	17 591	12 361	10 749	10 777	10 094	10 598	11 789	11 067
40 - 44	15 155	14 233	:	15 927	17 289	11 548	10 003	9 632	8 189	7 909	8 327	7 262
45 - 49	9 818	9 563	:	11 197	12 857	9 392	8 272	8 340	7 727	7 806	8 101	7 372
50 - 54	7 060	6 431	:	7 154	8 124	5 821	5 548	5 658	5 256	5 664	6 457	6 042
55 - 59	4 640	4 415	:	4 772	5 573	3 989	3 447	3 572	3 473	3 725	4 062	3 788
60 - 64	4 518	3 822	:	3 550	3 929	3 146	2 854	2 967	2 786	2 824	3 102	2 940
Total	150 667	144 815	155 290	161 105	174 759	120 374	112 303	112 049	101 384	104 245	113 884	106 682
0-44	118 674	114 608	0	127 871	136 606	91 789	86 649	86 126	76 598	78 237	85 406	80 463
0-44 - %	79%	79%		79%	78%	76%	77%	77%	76%	75%	75%	75%

Source: Eurostat - <http://ec.europa.eu/eurostat/data/database>

It is important to note that these are the official statistics, which presumably underestimate the actual level of migration; in the case of Hungary, mirror statistics indicate that only about a third of actual migration appears in the official statistics.

One of the disadvantages of this strategy is that if young people escape from the country that raises them – and from their exploitation by the older generation who live there – by emigrating, then this will only mean that they will be using their contributions to support complete strangers; people from whom they did not receive a thing when they were children, instead of their parents. However, according to the current pension philosophy defined by Samuelson this is perfectly normal, and is something we need not worry about. (In fact, two years ago, the director of Germany's state insurance organisation explicitly stressed this – citing the current pension philosophy – in relation to Hungarian claims that it is unfair that young Hungarians who emigrate should pay contributions that benefit German pensioners, instead of their own parents' pensions.)

## Indirect individual strategies

If an increasing proportion of a person's income is deducted in the form of public burdens such as social security contributions to support old people, it is logical that

they will attempt to reduce their expenses in other areas so as not to have to reduce consumption.<sup>6</sup> The most logical step in this respect is if they reduce the costs relating to raising children by only having one child, or not having children altogether, because:

- Everything they do not spend on their children they can spend on themselves,
- By saving money on raising children they will not only have more income, but also much more time, part of which can be spent on money-earning activities through which the income available to spend on themselves can be further increased.
- Although giving up children can lead to a certain emotional deficit, such individuals suffer no financial disadvantage, and in fact enjoy the advantage that the increase in contributions they can make (in relation to the higher income derived from the extra work they are able to perform instead of raising children) will mean in terms of a larger pension when they retire, compared to those who were unable to eliminate their (rationally unjustified) child-raising instincts. People who have children can expect nothing in return from the children they have raised, and in fact experience shows that they will have to continue supporting their children even in old age, meaning this is another added advantage of this strategy.

However, it is obvious that if many people choose this strategy then by the time they reach old age there will be very few taxpayers whose social contributions can be distributed in the form of pensions. In view of the fact that we described this strategy as an intrinsic reaction to a situation in which there are not enough children, it serves as positive feedback and further aggravates the basic problem, although at the community level, not the individual.

### Collective strategies – the possibility of a compromise

At a community level, the above-mentioned strategies clearly serve to worsen an already bad situation, and accordingly it is expedient to try to create some kind of collective strategy; i.e., to force a new social contract through a process of bargaining. But what arguments or trump cards do young people have in this bargaining? What is it worth targeting at all? Does a compromise exist that could be viewed by both parties as equitable?

At first glance, in a democratic society young people are at a disadvantage in such a deal, because as a result of ageing, politicians are increasingly inclined to take into account the point of view of the older generation, not only because are they the largest and most rapidly increasing group of voters, but also because they are the most active part of the electorate. Elections have been lost in Hungary because of the rational reduction of pensions, and elections have also been won thanks to promises made primarily to pensioners. And this takes us in a direction in which the

<sup>6</sup> In her 2005 study, Mária Augusztinovic argues that ageing is not a problem for now, because the increase in the number of old people is occurring parallel to the decrease in the number of children, and although the old-age dependency rate is increasing, the proportion of young people is decreasing. Accordingly, the total dependency rate is still lower than it was in the previous century (which was characterised by a large number of children).

burdens on the younger generations are continuously increasing as a result of ageing, while their opportunities for achieving a deal of a political nature are continuously decreasing, leaving them only with individual opportunities to opt out and desert the system, such as emigration.

However, at a second glance, if we do not consider those who are already pensioners and who are unable to change their situation themselves (and must accordingly rely on politics, and for whom as a result it is rational to exploit the instruments for applying political pressure), but instead consider those who are not yet pensioners, then there opens up a certain amount of room for manoeuvre in terms of bargaining. This is because – if their attention is drawn to the fact in time –, it should not be impossible to get people who are currently middle aged to realise that if they follow the example of the present older generation when they too retire, then they will only be forcing more young people who pay social security contributions to desert *en masse*, due to which contributions will have to be increased, which in turn will create even greater impetus for young people to opt out. And the end result will be that, despite their power to exert political pressure, pensions will still not be high enough. This end result can be avoided through the timely conclusion of a new deal with regard to the future and an equitable distribution of burdens. So this bargain would come about between the middle-aged and the young, and would affect transfers between future active workers and old people. Of the generations affected, even old people are still young enough to adapt to the new situation. But for the acceptance of the young people of the future, who are unable to take part in its development either because they are too young or have not yet been born, it must be well-founded from the beginning; a deal that is regarded as fair by all parties. What would a deal of this kind look like?

### Collective strategies – searching for an equitable deal

Such a deal would fundamentally involve today's middle-aged active workers – the old people of the future – foregoing certain transfers from the active workers of the future, meaning they would have to reduce their old-age income that is derived from this source, and (partly) assume responsibility for the payment of certain expenses (e.g. healthcare) that are currently also (mainly) paid instead of them by active workers.

This very roughly determined principle is logical, but what level would both parties regard as equitable?

#### *An opportunity for a practical deal*

A practical solution that lacks all theoretical considerations can be envisioned by taking a look at the past level of transfers from active workers to the older generation, and determining the observed level which we still regard as bearable

today. The two most important financial transfers from active workers to old people are pension contributions and health insurance contributions; the other elements are smaller and difficult to express in numbers (such as, for instance, savings on travel for pensioners).

According to figures from the Central Administration of National Pension Insurance (see ONYF [2016]):

Table 3: Pension Insurance Fund contribution rates as a percentage of earnings serving as basis for contribution - %

Pension insurance contribution paid by	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
employers	24,5	24,5	24,5	24,5	24,0	24,0	22,0	22,0	20,0	18,0	18,0	18,0
the insured	6,0	6,0	6,0	6,0	6,0	7,0	8,0	8,0	8,0	8,0	8,5	8,5
Total	30,5	30,5	30,5	30,5	30,0	31,0	30,0	30,0	28,0	26,0	26,5	26,5
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
employers	18,0	18,0	21,0	24,0	24,0	24,0	24,0	24,0	27,0	26,0	23,1	
the insured	8,5	8,5	8,5	9,5	9,5	9,5	10,0	10,0	10,0	10,0	10,0	
Total	26,5	26,5	29,5	33,5	33,5	33,5	34,0	34,0	37,0	36,0	33,1	

The National Health Insurance Fund (OEP) only publish data as a percentage of GDP (OEP [2016])

Table 4: Changes in National Health Insurance Fund expenditure as a percentage of gross domestic product (GDP)

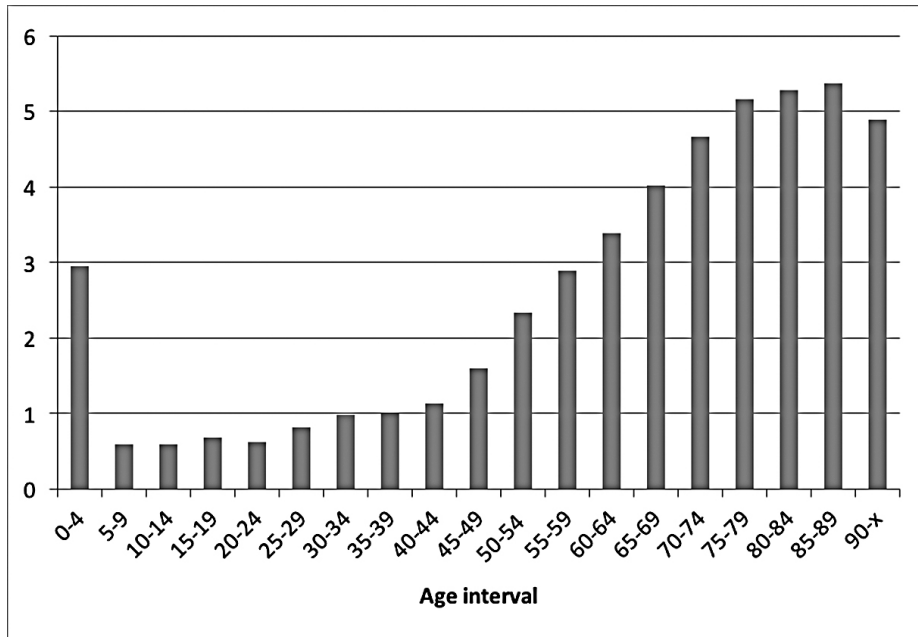
1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
7,7	7,2	6,3	6,1	6,0	6,0	6,0	6,4	7,0	6,9	7,1
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
7,0	6,5	5,4	5,4	5,5	5,3	6,3	6,2	6,0	5,8	

This indicates that – at least in Hungary – the two values have fluctuated around a significantly high level during the past two decades, and accordingly we might state that the above-mentioned “past figure” could easily be equal to the current figure, which we could then freeze as a result.

However, we also know that the above two elements are not homogeneous: while in pay-as-you-go pension systems such as Hungary’s pension contributions exclusively burden active workers and exclusively serve the consumption of old people, healthcare contributions may also exclusively burden active workers, but also partly serve their healthcare consumption. However, we also know that old people use healthcare services to a proportionally greater extent, meaning healthcare contributions must increase for two reasons as a result of ageing. Accordingly, freezing healthcare contributions for active workers would mean that old people would also have to pay such contributions (and moreover, increasing contributions)

for a long period, meaning the proportion of their pensions that can be spent on other things would decrease. It is already visible in the above OECD data that healthcare consumption by older people is much higher than by younger generations. This is also confirmed by the Hungarian data:

Figure 6: OEP healthcare expenditure in relation to one thousand citizens of identical age, 2010



Source: Lecture by Gyula Kincses, 2017, OEP

Accordingly, freezing the part of healthcare contributions that serves for the healthcare consumption of old people would mean that the increasing deficit in the financing of healthcare services for the old would have to be paid for out of pensions. This would lead to a reduction in pensions. If this is something that future pensioners can see in advance, then they can prepare for it through planned savings, with which they can supplement their pensions. In other words, they can capitalise part of their pension services. Overall, and from a functional perspective, this is the same as if they were to capitalise part of the collateral for their healthcare insurance services, and this can be formally organised in this manner.

But the pensions of old people in the future (or at least, the part that is derived from currently active workers) also decreases because we are freezing their pension payments while ageing continues, leading to the following situation: the number of active workers paying social security contributions decreases, leading to a reduction in the total sum of contributions paid into the system, which in turn

must be distributed among an increasing number of old-age pensioners. Old people can defend against the resulting reduction in pensions in two ways: first through a continuous increase in the age of retirement, and second, through savings, which is equivalent to the further partial funding of the pension system. Increasing lifespans mean that for pensions not to be reduced, retirement age must be increased by a greater level than the expected increase in lifespan, or in other words, in a way that means the average time spent as a pensioner continuously decreases.

This practical solution may seem viable at first glance, but there are a few problems, including but not limited to the following two, which I would like to highlight here:

1. Since this solution is not based on principle, we cannot be sure that it will be permanent. It may seem equitable now, according to our current experience, but this is fundamentally subjective; we cannot be sure that upcoming generations will feel the same. As a result, we can never be sure that the upcoming generation will not withdraw from this agreement.
2. It is clearly unfair with regard to women who raise children, because they will receive less and less from the continuously decreasing distributable pension money in view of the fact that, in contrast to men, they have spent a significant part of their active working years raising their children and not performing earning activities that include the payment of social contributions. This has, of course, always been the case, but there have so far been additional resources available to compensate for this, which will later dwindle and eventually run out. In addition, it will become increasingly evident that people are only entitled to a pension because they have raised the next generation of contributors. And it is precisely those who have contributed the most to this who will benefit the least.

At first glance, we could handle this situation by examining the fundamental philosophy behind the current pensions system and returning to its strict, “fundamentalist” interpretation. This, with a few amendments, could provide a solution to these problems.

### *The fundamentalist solution*

The pay-as-you-go pension system was eventually underpinned by a philosophy – much later than its practical introduction – by Samuelson (1958). This was welcomed with joy by the system’s practical implementers, because until then they had had the bad feeling that they were operating a gigantic Ponzi scheme (Blackburn [2003]). This bad feeling was dispelled by Samuelson, and everyone calmed down (although the bad feeling was justified and should not have been dispelled, but rather further reinforced, as has now transpired – but more about that later!).

According to Samuelson, it used to be the case that children took care of their ageing parents in exchange for having been brought up by them (“traditional pension system”), but this has now gone out of fashion. Because of this, consecutive generations concluded a Hobbes-Rousseau social contract. According to the

agreement, current active workers pay for the upkeep of current pensioners, and in return the active workers of the future will also pay for their upkeep. Furthermore, old people will also receive a kind of “biological” interest, meaning their pensions will be higher than the sum they paid into the system, because the increasing population means there will be more active workers paying social contributions than there are old people, and the additional contributions of these active workers will also be distributed among current pensioners. This philosophy was widely adopted (although not strictly adhered to in the sense that contribution payments were not generally defined, but instead the level of pensions was somehow determined and contributions were then continuously adapted to this level), and only one major amendment was included. This was put forward in a short article by Aaron in 1966, who said that the biological interest should also be supplemented by the effect of increased productivity. Although Samuelson concentrated on the likely population increase, he did note that it follows from the model that if (in an extreme case) the population were to fall, then biological interest would be negative.

In other words, freezing pension contributions at an acceptable level and only paying pensioners a pension that corresponds to the contributions paid corresponds to the original philosophy of the pay-as-you-go pension system, except this principle has generally not been followed so far. Accordingly, the first failing of the above-mentioned practical solution can be remedied, and the solution is not difficult to find: we must simply return to the official philosophy of the pay-as-you-go pension system; we need only put a stop to the lenient practices employed until now and adhere strictly to the official philosophy. Demand for the fundamentalist approach has increased steadily with the worsening of the demographic situation, meaning the setting of contribution levels and the introduction of the equitable distribution of gradually dwindling pension resources. And with regard to the fall in pensions, their distribution cannot be handled with the same ‘laxity’ as before, but must be well-justified. Moreover, according to the original philosophy put forward by Samuelson, such a justification is the fact that pensions shall be in proportion to the total contributions paid by the individual until they retire, which accordingly must be recorded (in a valorised manner, although this was defined by another Nobel prize winner, Buchanan [1968]). This kind of pension system is called an individual account, or NDC (notional defined-contribution) system, and for a long time I too felt that this was the right direction for pension reforms (Banyár-Mészáros [2003], Banyár-Gál-Mészáros [2010]).

We have thus turned the above-mentioned practical solution into a for-the-most-part theoretical solution, and have eliminated its first major shortcoming. The second shortcoming is also relatively easy to eliminate (and our proposals for reform mentioned above include the original proposals that harmonise well with the logic of the NDC system): in this solution, pension entitlements acquired during marriage would be regarded as joint entitlements in view of the fact that a kind of distribution

of labour existed between the married couple within the family, with one partner staying at home with the children while the other worked. This means that income and the related acquisition of pension entitlements are a joint acquisition, which must be distributed equally. One embodiment of this could be a joint life pension annuity based on this joint acquisition of pension entitlements (I will not go into detail here, but the specifics can be found in the above-mentioned articles).

So it would seem that demand for the introduction of an NDC pension system, and with it a return to the basic principles established by Samuelson, would solve almost every problem, but unfortunately this is not the case. This is because if we imagine a pay-as-you-go pension system reformed as above, according to fundamentalist principles, while negative demographic trends continue, then we are faced with the following problems:

1. First of all, we have as yet not found a theoretical answer concerning the appropriate definition of pension contributions; all we know is that defining a set value is a theoretical solution. And in the case of a population decline, defining pension contributions at a high level is much more problematic than if the population is increasing.
2. In this case, the youth of today knows that if the population continues to decline, then their pensions will be even less than the reduced pensions of today's older generation. In other words, if we regard their contributions as payments into the system, as suggested by Samuelson, then the ("biological") interest rate on those payments will be negative, meaning it is in their interest to continue to "sabotage" this system and use every possible opportunity to opt out and desert. Simply put, the Samuelson system may not work as effectively with a negative rate of interest as with a positive interest rate, meaning the two cases are not symmetrical, especially in view of the fact that the original principle would only be introduced as a result of a negative interest rate. While the rate was positive, meaning while the population was indeed increasing, it was not in fact the biological interest rate that was positive, but it was rather the rate of contributions that was set to such a low level. Meaning that, in contrast to the system's philosophy, it was not the pensioners of the era who enjoyed the most benefits, but active workers.
3. Furthermore, a fundamentalist reform or a transition to the NDC system would not have the same effect in developed countries with poor demographics as it would in moderately developed countries like Hungary. In highly developed countries, problems that are coming to a head as a result of a strongly negative ("biological") interest rate can be delayed for a long time by encouraging young people to emigrate there from moderately developed countries, in view of the fact that, despite the low number of children, developed countries can acquire new social security contributions. This also corresponds with the intention of young people to desert periphery countries, meaning such migration is in the joint interests of young people from both highly developed countries and moderately developed countries.

Although the price of this is that pension problems become even more severe in moderately developed countries (“positive feedback”), according to Samuelson’s philosophy this is something we should not be concerned with. In fact, in this case the philosophy directly affirms their interests, because it states that source countries are not owed anything in return for the emigration of young people. This may be something that we may increasingly state only in bad faith, but we should not harbour illusions; this is a position that developed countries will hold. And in fact the mechanism of operation of the European Union, and especially the principle of the free movement of labour, is assisting them in this (See Banyár [2014b]). This means that, even in the event of a fundamentalist reform of the pension system, in Hungary the pension problem would reach breaking point much earlier than in more developed countries.

4. Finally, from one perspective the family approach described above solves the problem of unfairness with respect to women with children, which we mentioned as one of the problems associated with the possibility of a practical deal, but it also increases unfairness from a another perspective. This is because people with children (including men) will suffer a reduction in pensions compared to actively working men who do not start a family and generate a similar level of pension contributions. Accordingly, the question arises whether it is equitable for parents who have in effect undertaken to provide a new generation of social security contributors to be paid lower pensions than those who have not done so. In essence, we could ask a similar question with relation to one-way migration between highly developed and moderately developed countries.

As we can see, one option, a return to Samuelson’s principles, represents a highly doubtful solution. Accordingly, neither the practical/pragmatic solution, nor a solution based on old principles will be effective.

*New principle: the equitable settlement of accounts between generations*

So we have reached a stage where we need a theoretical solution, but the old principle does not work very well; it was developed incorrectly. So what next? What is the right strategy for young people to take? Should they strive to do away with the current pension system after all, in view of the fact that within a Samuelson framework and in a worsening demographic situation, topped with an environment that is draining labour out of the country, they can only be the losers of the pay-as-you-go system, whether it is reformed or not?! Are young people right to be resentful with regard to the social contract that is currently in effect, and which is disadvantageous to them, and are they justified in refusing to maintain the current older generation on the grounds that they are certain to lose out on the deal?

For my part I believe that (possible, or future) resentment on the part of young people is justified, but only to a certain extent. Only to a certain extent because young people cannot claim that they are supporting old people for nothing in view

of the fact that they have received a lot from them, and owe them a lot to begin with. And the fact that old people are asking for something in return for what young people owe them is not in conflict with any fairness-related problem. But what do young people owe the old? Practically speaking, they owe them the cost of their upbringing, because that is something to which they contributed practically nothing. In addition, the human capital owned by the child, and which generates income for them, was created thanks to the financial efforts of the parents (and to a certain extent, other taxpayers). These efforts can thus in fact be regarded as, investments in human capital, with regard to which it is justified to expect not only a simple return, but perhaps also a positive yield. These investments were not made by the child, so it is not a justified demand that the former should receive the full yield, and should not have to return something of it to those who did make the investment. We could also approach things from the perspective that the child invested in his/her own human capital, but using a loan from their parents and other taxpayers, and it is appropriate that this loan should be repaid when the individual is able to do so.

It is interesting to note that Samuelson writes nothing about this aspect of things; in his approach children have no consumption, meaning they have contributed zero investment to child-rearing, which naturally has a yield of zero (he more or less explicitly states exactly this!). This is all the more strange in view of the fact that he mentions the motive itself, because he states that this is exactly what happened within the “traditional pension system”, which has “gone out of fashion”: children supported their parents in exchange for having been brought up. In defence of Samuelson, it may be stated that the idea of investing in human capital was only put forward a little later than his description of his own pension philosophy. Nevertheless, it is strange that the theory has not been corrected since then.<sup>7</sup> These days we take everything into consideration, but only partly consider our most important investment, the one in human capital, although pensions are the yield on this investment. If there is no investment, there is no pension. Pensions can only be as high as is permitted by this investment (and this is something that even Samuelson noticed and mentioned in his 1958 article, but only in very general terms).

The fact that we do not take account of the investment in human capital means that we are potentially allowing that capital to escape from us without settling

7 I have attempted to perform this theoretical correction myself (Banyár [2014a]). The theoretical correction results in a pension system, as also described here, that was already “invented” 10 years earlier without any theoretical consideration by four authors working (at the time) for a Czech-Dutch insurance company (Hylz et al [2005]). It is important to note that, although they do make a positive contribution to the topic, I regard the majority of views concerning the subject of “children and insurance” as a side-track from a theoretical perspective, because of what I regard as the question having been put forward incorrectly. The question that was put forward is: how can fertility rates be increased via the pension system? This arose from the correct observation that the current pension system is a disincentive to having children (see e.g. Gál [2003]), but the reversal of the question seems arbitrary, because why should the pension system be required to promote childbearing? This is what those who objected to the idea concentrated on (for instance, in Kovács’s [ed.] volume [2012]), because this was how the proponents of the idea (and especially the Botos’s, e.g. Botos-Botos [2011]) communicated it. But even the impartial analysts felt that this approach was self-evident (e.g. Regős [2015], Simonovits [2014]). My standpoint is that the pension system must be impartial with regard to this question of fertility, and I deduce the required reforms from deeper financial relationships rather than from the perspective of fertility rates.

accounts. (Although, as I have already mentioned above, developed countries are happy about this [for the moment] and are in no rush to settle accounts, and in fact are shaming those who want this.)

So what we have found is that a correct solution that could be justified in the long term would be for the generations to simply settle accounts with each other<sup>8</sup>, with the young repaying the costs of their upbringing to those to whom they owe it when they are capable of paying, meaning when the investment in their human capital “bears fruit”; i.e., when they become active workers. This means that young people should only resent the fact that the old are demanding money from them to the extent that this demand exceeds the valorised costs of their own upbringing (and perhaps a little yield on that investment).

Accordingly, the principle could be set down (in its initial, draft form) as follows: we take into account the average cost of raising a contributor (individual differences do not matter as long as they do not cause an increase in human capital), and the repayment of this investment is required by all young people (at some point in the future, at a suitable stage of their lives). The money that enters the system in this manner is then distributed in the form of pensions to those to whom these young people belong, meaning to those who have contributed to the creation of this contribution capacity, and in a proportion that corresponds to their investment. Young people do not owe everyone, meaning it is not their responsibility to maintain all old people. They primarily owe their parents (if, as is true in the majority of cases, they raised them; if not then they owe a debt to those who in fact raised them), and secondarily to those who supported their upbringing though paying taxes. The latter is a difficult issue, but not impossible to solve; it may be estimated to a relatively good degree. For instance, we may state that the sum with which people have contributed relative to the raising of the next generation is roughly proportionate to personal income tax that is paid. And we can calculate the absolute value by multiplying this sum with the part of the cost of raising a child that was financed through taxes. This includes, for instance, childcare allowance, state education, public healthcare, etc.

This also means that this contribution is something that young people owe, meaning they cannot demand a pension in exchange for repaying it. This in turn also means that the Samuelson principle of distributing the total sum of pension contributions paid into the system into individual pensions is wrong, meaning what counts is not what contributions the individual has paid, but to what extent they have contributed (directly or indirectly, through paying taxes) to generating new contributors. In other words, individuals are not eligible for a pension simply because they have paid pension contributions, although they must receive something in return for having contributed to the raising of a new generation of contributors through paying taxes.

<sup>8</sup> At this point, many will be reminded of the Kotlikoff-Auerbach theory of “generational accounting”, which is concerned with problems that are to a certain extent similar. However, my approach differs from theirs, which primarily concentrates on the total tax paid by the various generations. In contrast, I concentrate only on how much the individual generations owe each other, which only represents part of tax revenue, and also includes a host of services of a non-tax nature.

All this together represents a new social contract and a new pension system, which, however, is still lacking some elements in this current form. People who decide not to have children will receive a considerably lower pension compared to the present level; this is the price for reducing the burden on future generations to an equitable level. However, it is important to note that people who do not raise children, either because they never wanted to, or because “things didn’t work out”, have also saved (in the main) the money they would have otherwise spent on raising a family,<sup>9</sup> and if they do not need to immediately spend the money they have saved as a result, they can put it aside. And if they do put it aside, and, for instance, the state facilitates this with a targeted savings construction, then they can use this money to supplement their pensions.

We may state that a pension system based on these new principles would not be a pay-as-you-go system, but rather a partly-funded system. Although, if we view things from the perspective of content, then as a bad, Samuelson construction we can forget about the idea of a “pay-as-you-go” system, because the descendent of this system will represent nothing other than an investment in human capital. In other words, the new pension system would be fully funded, but participants can chose – freely, within certain constraints – whether to primarily invest their capital in human or “physical” capital, or perhaps in both, to ensure that they have an old-age pension. This also provides a measure of what they can expect to receive in old age, and why.

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<sup>9</sup> In Hungary researchers have recently found that only a very small percent of Hungarians voluntarily want to be childless, and that lots of childless people participate in some kind of childrearing activities (see: Szalma – Takács [2014]).

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Review of Sociology 27(4): 83–107.

## Beyond Nationalization

### Assessing the Impact of the 2010-2012

### Pension Reform in Hungary<sup>1</sup>

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Manuscript received: 5 July 2017.

Modified manuscript received: 15 November 2017

Acceptance of manuscript for publication: 23 November 2017

**Abstract:** The Hungarian pension system has experienced strikingly hectic changes over the past decades. Hungary adopted the Argentinean pension model in 1997, which included a compulsory private pension pillar. Thirteen years later, during the economic crisis, the conservative cabinet decided to fully eliminate the mandatory private pillar (the voluntary private pillar remained). This paper is written to assess the impact of the 2010-2012 reforms, with a view not only to examining the nationalization of private pension funds, but also the less discussed elements of the reform package concerning early retirement rules, the disability pension scheme, and social insurance contributions. Our main research question is whether the reforms led to a more sustainable and more equitable pension system. We provide a somewhat paradoxical answer: despite the lack of consultation with stakeholders and the extreme speed of the reform, the overall impact of changes is slightly positive as they have improved the financial sustainability of the Hungarian pension system in the short- and mid-term, while also increasing pension adequacy and replacement rates. The prospects of the pension system in the long run, however, raise serious concerns related to both sustainability and equity. One foreseeable negative process is the increasing inequality among new pensioners, and the growing share of poor among the elderly.

**Keywords:** pensions, nationalization, sustainability, equity, Hungarian pension system

## Introduction

The Hungarian pension system has experienced strikingly hectic changes over the past decades. In the early 1990s, it consisted of a Pay-As-You-Go (PAYG) public pillar<sup>2</sup>, an anti-poverty pillar,<sup>3</sup> and a voluntary private pension pillar. In 1997 the Socialist-Liberal

1 This paper utilizes some of the findings of Szikra, Dorottya, *Abandoning Compulsory Private Pensions in Hungary Processes and Impacts*. Working Paper, International Labour Organization, Geneva, 2015. The authors thank András Simonovits for his valuable observations on earlier versions of this paper and the anonymous reviewers of the *Review of Sociology* for their helpful comments. We also thank the participants of the conference "Institutional Reforms in Aging Societies" (Pázmány Péter Catholic University, Budapest, Hungary, 8-9 June, 2017), and the participants of Stream 10, "Pension policies – Challenges, reforms, outcomes" at the 2017 Annual ESPAnet Conference (University of Lisbon, 14-16 September 2017) for the fruitful discussions.

2 In the case of pay-as-you-go (PAYG) pension schemes, current contributions finance current pension expenditure.

3 The anti-poverty pillar was not a separate pillar, but consisted of various measures within and outside the pension system. The most important of these were the minimum pension level and the social assistance scheme for poor elderly (időskorúak járadéka).

coalition decided to partially privatize the pension system and a mixed pension system was adopted that resembled the Argentinean model<sup>4</sup> (Müller 1995). The privatization process in the mid-1990s was triggered by internal and external political and economic forces. Problems with the sustainability of the PAYG system due to increases in unemployment and inactivity during the transition years were primary. Sustainability issues coincided in time with the neo-liberal era of institutional reforms, and the activity of supra-national agencies (notably, the World Bank and the International Monetary Fund) in fostering the privatization of pension systems in Latin America and Eastern Europe (Orenstein 1998). The finally adopted mixed system included a compulsory private pension pillar for the newly employed generations and voluntary joiners, the public PAYG pillar, as well as an anti-poverty pillar.

Thirteen years later, the right-wing, conservative government of Fidesz abandoned pension privatization and, within just a few months, decided to fully abolish the private pillar. The radical nationalization of private funds attracted considerable scholarly interest (e.g. Simonovits 2011; Drahokoupil and Domonkos 2012). Less attention was, however, devoted to various other paradigmatic and parametric changes that were also adopted in the rapid 2011-2012 pension reform process. These included contradictory measures concerning early retirement rules, the retirement age, the disability pension scheme, and social insurance contributions.

In this paper we first describe the most important problems related to the compulsory private pension scheme. We then turn to an analysis of the 2010-2012 pension reform process, including its nationalization. We also shed light on more hidden elements of the reform. We briefly touch upon the undemocratic and precipitous way in which the changes were made. We then discuss our main research question and ask whether the reforms led to a more sustainable and more equitable pension system. We provide a somewhat paradoxical answer by arguing that despite the lack of consultation with stakeholders and the extreme speed of the reform, the overall impact of changes is slightly positive as they have improved the financial sustainability of the Hungarian pension system in the short- and mid-term, while also increasing pension adequacy and replacement rates<sup>5</sup>. The prospects of the pension system in the long run, however, raise serious concerns related to both sustainability and equity. One foreseeable negative process is an increase in inequality among new pensioners, and the growing share of poor among the elderly.

## Problems with the Mixed System

The 1997 reforms that created a semi-privatized pension system in Hungary were carried out by the Socialist-Liberal coalition with the active support of the World

4 The Argentine parliament approved a pension reform in 1994 which included the adoption of a funded scheme "on top" of the pay-as-you-go system. Pension privatization was reversed in 2008.

5 According to the OECD definition, the "net replacement rate" is calculated as the individual net pension entitlement divided by net pre-retirement earnings, taking into account personal income taxes and social security contributions paid by workers and pensioners.

Bank (see Müller 1995, 1999; Orenstein 1998). In the mixed pension system, newly employed persons were obliged to enter a private pension fund, whereas ‘old’ employees could choose whether to remain in the solely public PAYG pillar, or shift part of their contributions to a private pension fund. The private pension tier was financed from employees’ contributions deducted from the gross wage, and was usually paid directly by employers. From the total 31 per cent of contributions, six to eight per cent (2004; employees’ contribution) went to private funds, and 25 per cent (employers’ contribution) to the PAYG system. This means that the public pillar remained dominant. Rather than adding one extra tier to the top of the public pension system, the private pension scheme was thus “carved out” of the public tier (Simonovits 2011).

It was envisaged that future pensioners would receive roughly 75 per cent of their annuities from the PAYG pillar and 25 per cent from their individual, private accounts. The compulsory public and private pillars were supplemented with the still-existing voluntary pillar, while the prevention of old age poverty through minimum pensions and the previously means-tested scheme also remained unaltered. The privatized pension system was envisioned to be not only more sustainable than the public PAYG one, but it was hoped that it would also generate additional revenue by increasing employment, boosting economic output and decreasing the hidden economy and channelling savings into more productive segments of the economy (Drahokoupil and Domonkos 2012:288-289).

The mixed system became surprisingly popular, with around 2.4 million members in 2004 and 3 million in 2010 (about three-quarters of the total labour force). Most employees (cc. two million) entered voluntarily. One of the most important problems with the mixed system was that, due to a largely unnoticed rule, those who had some public pension rights lost 25 per cent of the value of these by joining the mixed system.<sup>6</sup> In fact, the majority of employees who entered voluntarily, and especially older generations, lost out with the mixed system. Certainly, people were not sufficiently informed about the drawbacks of the private system, while its merits were overemphasised. According to the model of Orbán and Palotai (2005) (who calculated using a 2.1 per cent average net real yield from private funds, although the figure was, in reality, much lower), future average pensions in the mixed system would have been substantially lower than pensions in the solely public pillar (ibid: 27, Figure 9).<sup>7</sup> According to Simonovits (2009:19), losses acquired in the mixed system after 20 years of service were between 9.8 and 12.5 per cent, and reached more than 18 per cent in case of 30 years of service. Furthermore, rather than individual employees it was typically employers who chose a pension fund, and this led to mass entrance into some of the largest funds and an overall increase in private

6 It was hoped that this loss would be compensated for by the high returns of the private pillar at the point of retirement. Notwithstanding this, taking away ‘earned’ social security rights was held to be unconstitutional by Augusztinovics (2000).

7 Even with an (unrealistic) 3.4 per cent yield, older pensioners would have been slightly better off had they remained in the public pillar.

fund membership.<sup>8</sup> In their early assessment of the mixed system, Gábos and Janky (2000) found that besides personal features (like age or labour market situation) employers played a significant role in encouraging employees to enter the mixed system, even when it was “not in the employees’ unambiguous interest” (ibid:519).

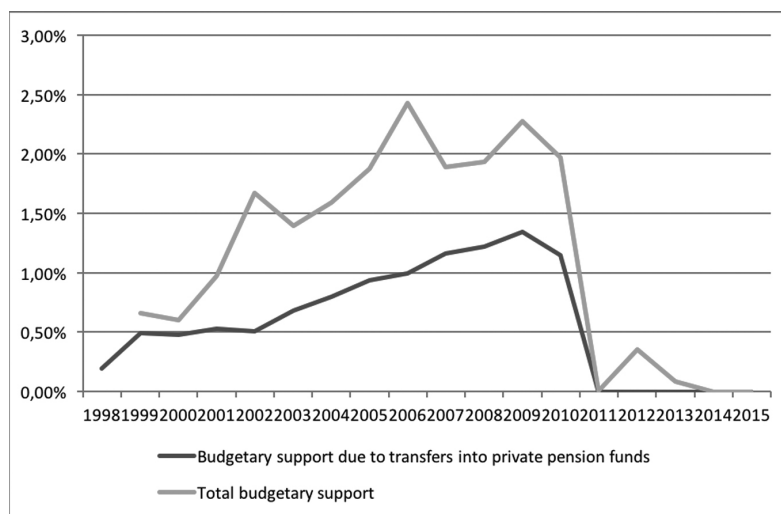
Experts agree that proponents of the privatization of the Hungarian pension system in the mid-1990s failed to address the greatest risk of the reform: the funding-gap problem (e.g. Barr and Diamond 2008; Drahokoupil and Domonkos 2012:288). Transition costs were clearly underestimated as the number of people joining the mixed system turned out to be substantially higher than expected by reformers. Thus, paradoxically, it was the “success” of the private pension system that caused the greatest sustainability problems. The funding gap arose from the decreasing share of contributions paid into the public system (shrinking from 24 to 18 per cent between 1998 and 2002) and the ongoing costs of contributory and non-contributory pension payments realized from the public pillar. As the Hungarian state guaranteed it would maintain the real value of the PAYG pensions, the fiscal burden on the Hungarian state increased from 0.3 per cent in 1998 to 1.2 per cent of GDP by 2010. Transition costs were financed from direct and indirect taxes<sup>9</sup> and also induced additional government borrowing from abroad (Mesa-Lago 2014:10).

But it was not only privatization, but also further parametric reforms (such as, for example, the adoption of the so-called “thirteenth month pension” in 2002) that contributed to the troubles with the financial sustainability of the system (Orbán and Palotai 2005:10). Figure 1 shows that about half of all the costs covered by the state budget in relation to the pension system arose from parametric reforms of the public pillar between 2002 and 2010, while the other half were created by from the transition costs of pension privatization.

8 Private contributions were made directly by employers, and this transfer method “allowed [...] employers to influence their employees in their choices of [...] funds” (Simonovits 2009:16).

9 VAT in Hungary has been above 20 per cent since the 1990s, and was raised to 27 per cent (highest in the developed world) in 2011.

Figure 1. Total spending and spending due to the transition to the mixed system provided by the central state to supplement the costs of the public pension pillar in Hungary between 1998 and 2013, % of GDP



Source: Accounts of the state budget, various years

According to long-term projections, the deficit of the public pension scheme within the mixed system would have remained significantly higher until 2050 than the deficit of a hypothetical single pillar system (in the case that Hungary had not introduced a mixed pension system) (Orbán and Palotai 2005:20, Figure 8). The deficit of the mixed system could not be counterbalanced by the (envisioned) increased net real yields of the pension funds, and related hopes finally faded away with the global financial crisis of 2008.

The third group of problems arose from the management of private pension funds. At the onset of pension privatization, mutual social insurance associations, funds owned by Hungarian banks or companies, as well as multinational banks and insurance companies, entered the market.<sup>10</sup> As a rule, 4-5 per cent of contributions went on operational costs (Simonovits 2009:17), but in reality these costs often amounted to more than 10 per cent. According to Mesa Lago (2014:9), administrative costs accounted to 14.5 per cent of contributions in 2010, or 3.4 per cent of the capital of funds. The charge ratio (calculated as the expected decrease in the future value of pensions due to the fees and levies paid by members) was estimated to reach 25 per cent (Orbán and Palotai 2005:14). Due to such high administrative costs, the average real yield of private pension funds was zero from 1998-2005, with

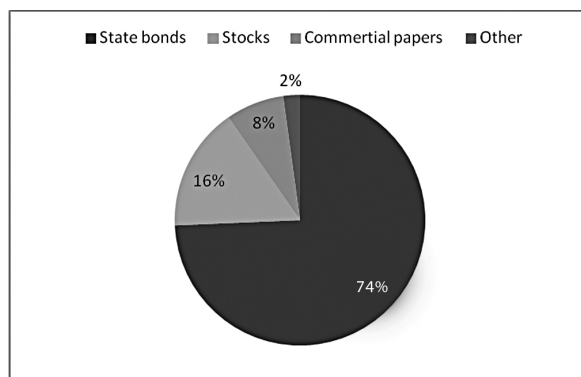
<sup>10</sup> The largest multinational companies who entered the private pension business were AEGON, Allianz, Erste, AXA and ING. The largest Hungarian bank, OTP, soon became the leader in the private pension fund market, while ING, AEGON and Allianz (taken together) had the largest overall share of the private pension market (Czajlik and Szalai 2005:29; For later figures, see Hirose 2011:182; Table 5.6).

significant variability between funds (Matits 2008). The real yield of funds fell well below even conservative expectations at the beginning of the privatization process.

A total of 950 billion HUF (appr. three billion EUR at current exchange rates) had been accumulated in the private pension funds by early 2005 (Czajlik and Szalai 2005:36). After a boost of more than 100 per cent in 1998-1999, the assets in funds grew by 40 per cent annually and were equivalent in value to more than 10 per cent of GDP by 2010.<sup>11</sup>

In the circumstances of a falling and later fluctuating Hungarian stock market and a high budget deficit resulting in excessive interest rates, pension funds concentrated their assets in government bonds (Simonovits 2009:20). Approximately three-quarters of the portfolios were held in government bonds in 2004, and the share of stocks remained around 15 per cent (Czajlik and Szalai 2005:37, 52).<sup>12</sup>

Figure 2. *The investment portfolio of private pension funds in Hungary, 2005*



Source: Czajlik and Szalai 2006:37, Table 15.

According to Hirose (2011), government bonds initially constituted 80 per cent of all assets, which decreased to 48 per cent by 2009. Drahokoupil and Domonkos (2012:290) point out that government bonds were often issued to finance the costs of the pension privatization itself, creating a costly “circuitous” way “to return funds to the government”.

## The 2010-2012 Reforms

The reform of the mixed system was initiated by the conservative Fidesz government that obtained a supermajority in Parliament at the 2010 elections. It must be noted that Fidesz opposed pension privatization from the very beginning and had severely limited

<sup>11</sup> This was equivalent to 12.14 per cent of GDP (authors' calculation).

<sup>12</sup> Although regulation did not strictly limit this, there was a lack of incentive tofor acquiring foreign investments, and management of funds concentrated on short-term, low-risk investments.

the role of private pension funds during its first term between 1998 and 2002. In 2010, constrained by an internal and external economic crisis, the second Fidesz cabinet decided to radically reshape the pension system and eliminate the private pension pillar. As argued by Drahekoupil and Domonkos (2012:290), the financial crisis exposed the drawbacks of the private pension system and especially the above-described funding gap problem. This in itself, however, would not have been sufficient for the 're-reform' which was driven by intertwined internal, external economic and political factors.

One important external economic factor was that the strict EU requirements about macro-economic stability provided little room for manoeuvre for member states, especially during the crisis years when they faced economic instability. New member states who partially privatized their pension systems in fact had the opportunity to deduct a gradually decreasing part of transition costs from their budget deficit (to be counted in the excessive deficit procedure) until 2010. The European Commission did not, however, allow for the extension of this derogation in the summer of 2010 which made the conservative government in Hungary rethink its strategy about the pension system.<sup>13</sup> To balance the budget, the first contributions due to private pension funds were directed to the treasury for 14 months (Act CI/2010) and a possibility to return to the public pillar was also created (Act C/2010). Very soon (in late November), a more radical plan to almost completely eliminate the private pillar was introduced to parliament by the Minister of National Economy, and by 13 December 2010 it was adopted without public debate or consultation with the opposition.

Instead of directly confiscating private pension assets, the new legislation proposed extremely unfavourable conditions for those who stayed in the private pillar. It announced that such people would not be eligible for the future accrual of a state pension (75 per cent of one's total pension) although their employers would be obliged to contribute to that scheme. To avoid scrutiny by the constitutional court on grounds of challenges to social insurance rights that had been obtained, contributions paid by employers were redefined as a 'social tax' [*szociális hozzájárulási adó*] to which no future claims could be attached (Act CLVI/2011). The justification for the bill was that 'those who do not return to the public pension scheme will, as it were, "opt out" from the national social security system'. (Bill T/1817:12) Members of private pension funds had only a month to make a decision, and finally 97 percent 'opted' for the pure public scheme. A year later, private fund members regained their rights to make accruals in state pensions but they were not allowed to restart their contributions to the second pillar. By this time, however, only a small fraction of the formal members remained in the private pillar. Contributions by private fund members, as well as all the accumulated assets of former members, were automatically transferred to the newly created 'Fund for Pension Reform and

<sup>13</sup> It seems that the EC feared that, without strict macroeconomic constraints, CEE states would become a crisis zone in the way that Greece had.

the Decrease of the Deficit' (Governmental Decree 87/2011), the management of which has been far from transparent.

The separation of disability pensions from the old age pension system in January 2012 (Act CXCI/2011) has been an important though less scrutinized element of the pension reform. The intention of the government was to 'purify' the pension system from disability-related benefits. Disability schemes (together with widows' and orphans' insurance) have been part of the Hungarian pension system since its very beginning in 1928 (Szikra 2009). Through this reform, the re-examination of the health status of people receiving disability pensions also started. Those above normal retirement age (62 years in 2012) became entitled to old-age pensions (app. 400 thousand persons); all others received either disability or rehabilitation benefits (app. 250 thousand persons), or temporary rehabilitation benefit/ (app. 190 thousand persons). The amount of the rehabilitation benefit was around one-third of the net average wage, depending on the health/disability status of the recipient, while the average pension benefit was around two-thirds of the net wage.<sup>14</sup> The benefit is only to be provided for three years, and afterwards is withdrawn, even if one is unable to find a job. People living with disabilities became eligible for a so-called disability annuity, which, in contrast to its name, is a low-level flat-rate form of assistance amounting to less than one-quarter of the average net wage, not linked to earlier labour market performance.

By pushing disability pensioners out of the system and eliminating early retirement opportunities, the overall number of 'pensioners' decreased from 2.8 million in 2011 to 2.2 million in 2012, an 18 per cent drop within just a year (HCSO 2014: 5, Figure 3). In line with the aims of the government to "clear the profile" of the pension fund, the share of old-age pensioners within the total number of beneficiaries increased from 60-63 per cent to 89 per cent in 2012, and to 92 per cent to 2014. Meanwhile, the number of beneficiaries receiving non-insurance-based benefits tripled. Social rights were clearly weakened with the shift from insurance to tax-financed benefits. There is, furthermore, no enforceable right attached to the latter. Overall, approximately 100,000 people were "pushed out" of both systems and were enrolled in the unemployment benefit system (social assistance) and public works programs with much stricter conditions for eligibility.<sup>15</sup>

Early retirement pensions were also drastically reduced (Act CLXVII/2011). The basic rule was formulated that no one who was under the official retirement age after 2012 (set at 62 that year, increasing to 65 by 2022) could receive an old-age pension. Abandoning early retirement and disability retirement schemes was a part of the neo-liberal austerity package of the Structural Reform Programme of 2011. In the case of civil servants, however, it became not an option but an obligation

<sup>14</sup> The net average wage was 160,800 HUF in 2016 (HCSO 2017).

<sup>15</sup> E.g. in 2013, 25.3 per cent of revised disability pensioners were sent to a rehabilitation program (for a few months) after which they were only deemed to be eligible for means-tested social assistance if they accepted public work. [http://hvg.hu/itthon/20130321\\_VG\\_A\\_rokkantak\\_11\\_szazalekatol\\_vettek\\_el](http://hvg.hu/itthon/20130321_VG_A_rokkantak_11_szazalekatol_vettek_el) (Retrieved: 08-05-2017)

to retire at the age of 62 (or at the official retirement age – in 2016, 63 years of age). Women with 40 years of rights, however, could retire immediately without any deduction according to the new legislation. This measure was justified by providing an opportunity for women to care for their grandchildren, which would, according to the argument, encourage young couples to have more children. This way the conservative cabinet managed to link pro-natalist aims to the pension system.<sup>16</sup> In contrast to pension calculations, time spent in higher education did not count as contributory years, whereas maternity and parental leave did (up to eight years for three children), reflecting the preference of the cabinet for women's caring roles.

The Fidesz cabinet managed to implement its reform agenda in an extremely short time, with the use of procedures considered “unorthodox” in a parliamentary democracy. First of all, the government did not reveal its plans in advance, and did not consult opposition parties, trade unions, private pension funds, civil society or other experts. Second, Fidesz utilized the method of the “individual member’s bill” (formerly only used in emergencies) to avoid the rule of compulsory consultation.<sup>17</sup> Third, the government left hardly any time for (legal, social and insurance) experts to follow up, let alone to analyse its activities and react to them.

In 2011, the Hungarian government lead by Fidesz *de facto* nationalized private pension assets and eliminated the second, private pillar. This way Hungary returned to its pre-1998 mandatory pension system, consisting solely of a pay-as-you-go (PAYG) public scheme. The tax-financed poverty elimination scheme remained intact. Private savings in the voluntary pension pillar stayed in place as well, and are currently encouraged by a PIT tax exemption of 20 per cent.

Table 1. *The Hungarian pension system following the 2011 re-reforms*

Pillars	Institution responsible	Financing
1. Old-age poverty elimination (minimum pension and old-age social assistance)	Pension fund + local municipalities	Compulsory contributions + general taxes
2. Mandatory public PAYG	Pension fund	Compulsory contributions (24% employer + 10% employee)
3. Voluntary private pension savings	Private non-profit funds	Voluntary private savings

When the government decided to strongly “encourage” private fund members to switch to the state-run pension system in November 2010, it also promised that their assets would be held on individual accounts within the public pension system. It was also stated that the private pension annuity (directed from the private to the public system) would be inheritable. Following the conversion of the majority

<sup>16</sup> This argument fails, however, if we consider that childless women can equally take part in the Women 40 scheme.

<sup>17</sup> Later, Fidesz used this method for nearly all important decisions of parliament, including the enactment of the new constitution.

of private fund members and their annuities to the public pillar, Prime Minister Orbán declared that individual accounts would be established in the course of year 2011.<sup>18</sup> These promises have not been fulfilled at all, and individual accounts within the public pension scheme have not been established as of the time of writing (May 2017).

The official retirement age, as described earlier, was raised and was made quite rigid in 2011 with limited or no possibility for early retirement, and in some cases (civil servants) also of later retirement. The retirement age is gradually being further raised (by approximately six months every year) from 62 years in 2015 to 65 years in 2022. The following table shows the gradual increase in the retirement age:

*Table 2. The gradual increase of the retirement age in Hungary, as set in 2011*

Year of birth	Retirement age
1952	62
1953, 1954	63
1955, 1956	64
1957	65

Source: Act LXXXI of 1997, §18.

Pensions are calculated on the basis of average net wages acquired since 1988, valorised to the year before retirement. One needs at least 20 years of contributions to receive a full pension; that is, to be eligible for the guaranteed minimum pension, and above a 50 per cent replacement rate. People with 15 years of contributions can also receive pensions, but at a very low level, with no guaranteed minimum pension. Replacement rates increase in line with the number of contributory years. An eighty per cent replacement rate can be reached with 40 years of contributions. Extra years of service are awarded a yearly two per cent increase; in this way one could obtain 100 per cent of one's former average wage with 50 or more contributory years. In the case that one postpones retirement to later than the official retirement age, a monthly bonus of 0.5 per cent of the originally calculated pension is provided. Most pensioners retire after around 35-40 years of service, and thus receive reasonably high relative benefits (see below). There is no possibility, however, for civil servants to work longer than the statutory retirement age, except for medical doctors, researchers and university teachers.

<sup>18</sup> <http://www.origo.hu/gazdasag/hirek/20110202-orban-viktor-miniszterelnok-sajtotajekoztatot-tart-szerdan-a-parlamentben.html> (Retrieved: 08-05-2017)

Table 3. Replacement rates according to the number of contributory years in Hungary, 2015

Contributory years	Replacement rate (% of average monthly wage)
15	43
20	53
25	63
30	68
36	74
40	80
45	90
50 or more	100

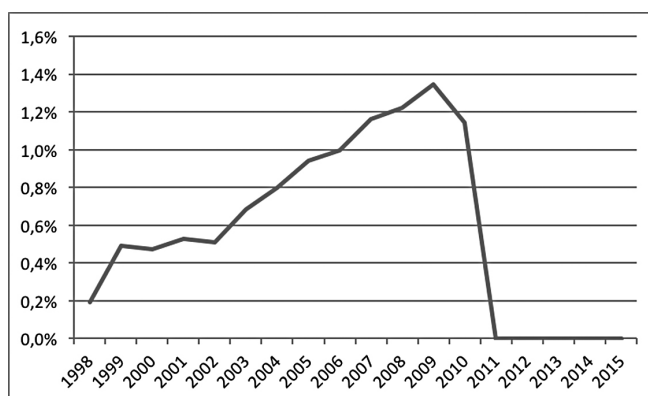
Source: Act LXXXI of 1997, Appendix 2.

## The Impact of the 2011 Re-reforms

### *Macroeconomic and Fiscal Impacts*

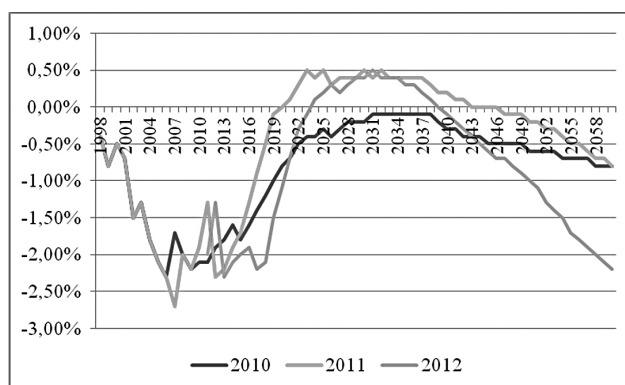
As analysed above, budgetary support for the pension system sharply increased following the privatization in 1997 due to the transition costs and the decrease in pension contribution rates in parallel with the increase in relative pension levels (from 2002) until 2009. In this year, the thirteenth month pension was eliminated, decreasing state support for the pension system immediately (Figure 1). In 2010/2011 private pension contributions were channelled to the public pension system, which further eased the burden on the budget. The nationalization of private pension assets in 2011, together with the elimination of early retirement schemes and disability pension schemes (the “profile clearing” of the pension system), together contributed to the complete elimination of the fiscal burden on the state budget in the short run. In fact, the public pension fund has had a surplus and contributed to the state budget since 2013.

Figure 3. The value of central state financing arising from transition to the mixed pension system in Hungary, 1998-2013, % of GDP



While no official calculations exist about the long-term effects of the re-reform, according to earlier legislation relating to the state budget (Act XXXVIII/1992, §86), the yearly discharge of the implementation of the state budget was required to include long-term calculations about the pension system using the demographic and labour market prognoses of the Hungarian Central Statistical Office (HCSO). Figure 4 shows the 2010, 2011 and 2012 prognoses concerning the sustainability of the Hungarian pension system.<sup>19</sup> It highlights the fact that, according to the Fidesz government, the revenues and expenditures of the pension fund (excluding other resources) will be balanced until 2030, and a sharp decline is envisioned for the years following 2040 due to demographic factors (the effect of low fertility rates and increasing life expectancy) and economic factors (more people with scattered working records start to retire). As the figure also shows, the 2012 post-reform prognosis has been much less optimistic than that of 2011. A similar conclusion is drawn by Freuenberg et. al. (2016:59), who claim that the pension system will be more or less balanced until 2035, while later on it will turn into a deficit, reaching 4-5 per cent of GDP between 2060 and 2040.

Figure 4. Yearly prognoses (2010, 2011, 2013) of the Hungarian government about the long-term sustainability of the pension system for the period of 1998-2060. (Contributions minus pension expenditures, % of GDP)



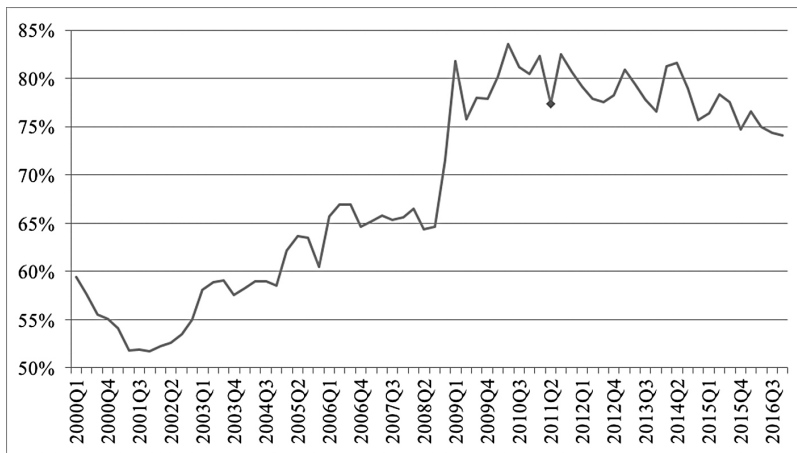
Source: Own calculations based on the appendix of the Law on Central State Budget, various years

The nationalization of private pension assets contributed to a temporary decrease in government debt by five per cent between the first and the second quarters of 2011 (Figure 5). It is estimated that about half of the amount of assets was spent on decreasing the budget deficit, which dropped to a record low 1.9 per cent in 2012, as compared to 4 per cent in the EU27 (HCSO 2013). However, due to various

<sup>19</sup> According to the new legislation on the state budget (Act CXCV/2011, §22), no long-term projections must be made any more, but only a three-year short-term prognosis about pension sustainability should be included in the plan for the budget.

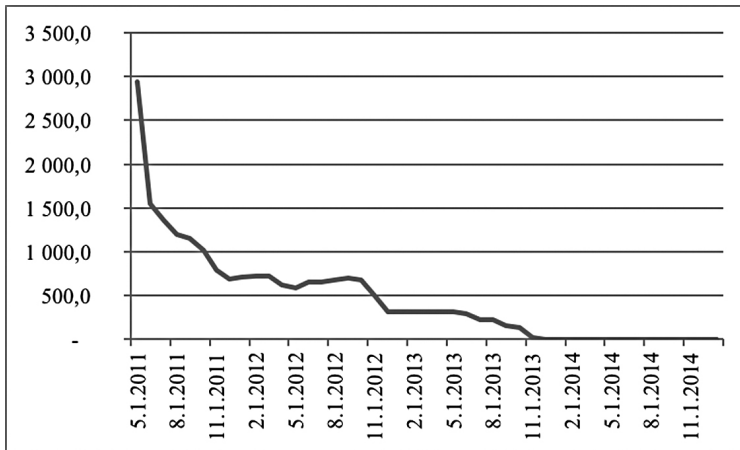
transactions and economic processes (including the devaluation of the Hungarian Forint) the explicit debt of the Hungarian state has not been reduced successfully and reached 82.4 per cent of GDP by 2013, the same proportion as in 2010 (Eurostat 2013). Furthermore, as has been pointed out by e.g. Banyár (2017), the hitherto explicit debt of the state was now transferred into implicit debt.

Figure 5. Quarterly report on government debt, % of GDP



The capital of the Pension Reform and Debt Reduction Fund, established by the government to handle the incoming assets of the private pension funds, sharply decreased right after the nationalization of pension funds due to the withdrawal of state bonds transferred from private funds to the state (Figure 6). Half of all the assets that were kept in state bonds were immediately withdrawn once they arrived in the coffers of the Hungarian state. The fund used the majority of its assets to decrease government debt, and, from this amount 243 billion HUF (0.85 per cent of GDP) was used to pay back a loan from the IMF, and a further 81.3 billion HUF (0.27 per cent of GDP) was used to take over the debt of local governments. Furthermore, the fund paid 95.6 billion HUF directly to the treasury (0.34 per cent of GDP) and 363.4 billion HUF to the public Pension Fund (1.28 per cent of GDP) in 2011. Shares in the Hungarian oil company MOL were also purchased so as to acquire a majority from Russian stakeholders.

Figure 6. *Nominal Value of Assets of the Pension Reform and Debt Reduction Fund in Hungary (billion HUF)*



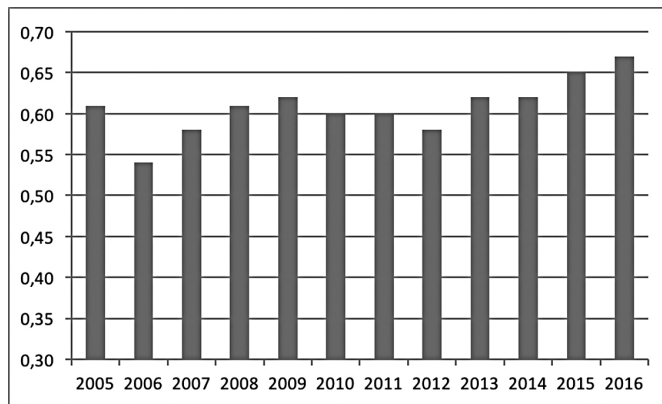
Source: Own calculation based on figures of the Government Debt Management Agency [ÁKK], various years

#### *Coverage, Replacement Rates, Adequacy and Equity*

No valuable overall effect of the re-reform can be identified in connection with the general rates of coverage. There has been a substantial shift, however, *within* the pension system due to the elimination of disability pensions. Replacement rates have somewhat increased following the re-reform process (Figure 7).<sup>20</sup> Nonetheless, this cannot be considered an effect of nationalization, but can rather be attributed to other paradigmatic and parametric reforms caused by the 2011 reform package (the elimination of disability pensions, a decrease in progressivity in calculating pensions, cessation of contributions and pension level ceilings and the introduction of beneficial retirement options for women). The elimination of the progressivity of PIT further increases the variability in the level of new pensions (Simonovits 2017).

<sup>20</sup> The spectacular wage hikes of 2016 and 2017 might again decrease replacement rates.

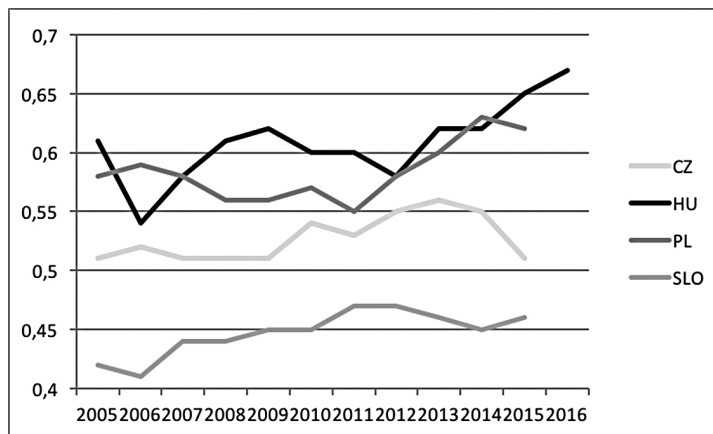
Figure 7. Aggregate replacement rate of old-age pensions in Hungary, 2005-2016



Source: Eurostat 2016

The adequacy of the level of pensions has been relatively positive in Hungary if calculated as aggregate replacement rates both compared to other Central and Eastern European countries (Figure 8) and in relation to other EU member states (HCSO 2014).<sup>21</sup>

Figure 8. Aggregate replacement rate of old-age pensions in Hungary and in CEE countries

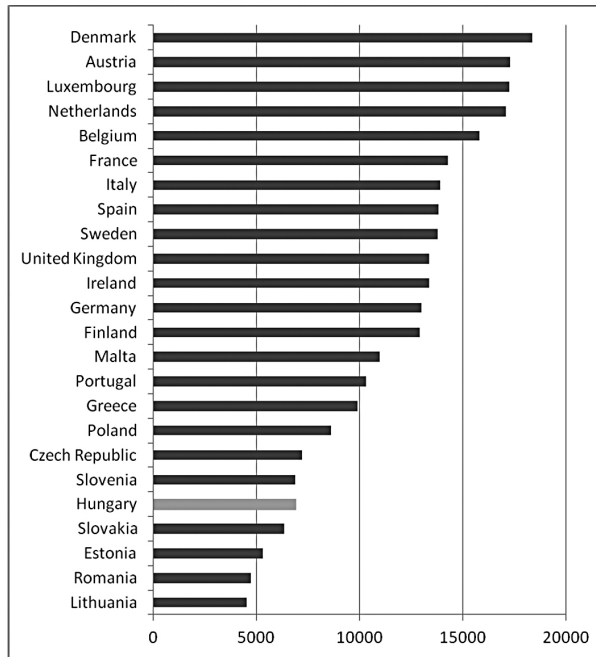


Source: Eurostat 2016

While the aggregate replacement rates show improvement, when calculated in Purchasing Power Parity, Hungary is located within the last quarter of EU member states, indicating the relative disadvantage of Hungarian pensioners compared to their European counterparts.

<sup>21</sup> Decision makers recently considered reducing the relatively high replacement rates, butting the no measures have been taken yet.

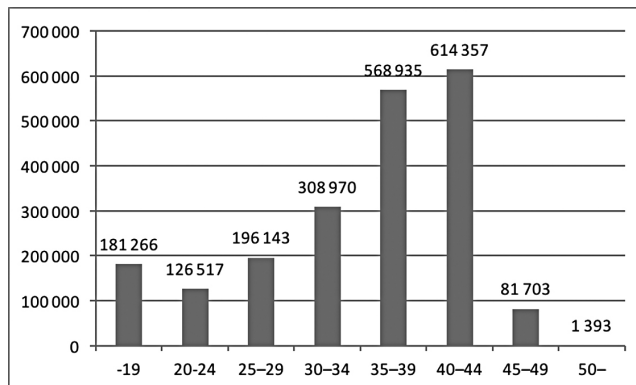
Figure 9. The annual amount of old age pension per pensioner purchasing power parity in 2013 (PPS/Person)



Source: HCSO 2014

The largest number of present pensioners (around 1.1 million people) retired with 35-45 years of contributions, and most typically pensions of between 110 and 130 thousand HUF (352 to 416 EUR). The average pension was 115 thousand HUF (368 EUR) in 2014, 75 per cent of the net average wage in 2014 (154,500 HUF or 495 EUR).

Figure 10. The number of pensioners according to the number of contributory years in Hungary, 2017



Source: Own calculations based on data of ONYF, 2017

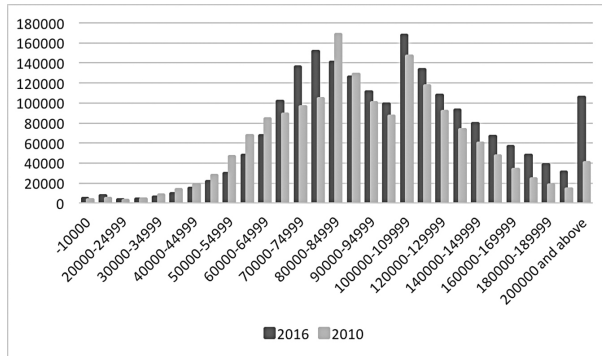
An important though less visible parametric change has been the gradual increase and final elimination of the ceiling on pension contributions and pension levels which furthered the increase in inequality among newly retired old-age pensioners. The ceiling of contributions was introduced in 1992, and in the first years was set at 300 per cent of the gross average wage. In the following decades, the ceiling oscillated between 161 per cent (in 2002) and 311 per cent (in 2009) of the gross average wage.<sup>22</sup> Since 2013, pension levels have been set according to the total wage, whereas for other years they were calculated according to the different ceilings.

Another gradual, no less important change has also contributed to increasing the inequality of pension levels. Progressive calculation, a method of increasing solidarity within the pension system, was a tool which had substantial effects in the early 1990s as it involved lower incomes as well, but it gradually declined in significance since 1998 and as of 2013 was *de facto* eliminated – only 0.5 per cent of pensions were calculated using this process after this date due to the high level of net wages above which progression has to be used (see also Simonovits 2017). This elimination of the progressive calculation of pensions and cessation of progressivity in the PIT system together point in the same direction: towards the massive polarization of pension levels.

Besides the above-mentioned more or less hidden parametric changes, the most important factor that is contributing to the already observable increase in pension inequality is related to the changing pre-retirement labour market position of new pensioners. In the forthcoming years, an increasing share of new pensioners will have fragmented careers because many of them will have made their contributions under the new capitalist democracy, with periodically high levels of unemployment and low employment rates. In other words, a decrease in the share of new pensioners' work record will be associated with the state-socialist period that secured (and obliged) employment. This changing pattern of work records that overwhelmingly affects people who have a lower level of education will be coupled with the eliminated ceiling and lack of progressive calculation, which together will inevitably strongly increase pension inequalities in future years. This change can already be seen in Figure 11, which shows that between 2010 and 2016 the number of pensioners who received a low-level pension increased in parallel with the boost in the number of pensioners obtaining very high pensions of above 200,000 HUF (641 EUR), which translates to 114 per cent of the average net wage in 2016.

<sup>22</sup> Lately, the ceiling has remained stable at around 300 per cent. When calculating pensions, each of the yearly ceilings was used (every year a different ceiling was applied to the yearly average wages of employees).

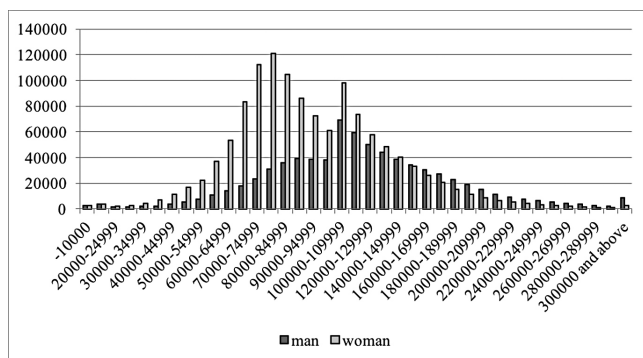
Figure 11. The number of old-age pensioners according to the amount of benefits in Hungary, 2010 and 2016



Source: Own calculations based on data of ONYF, 2017

As men are overrepresented among high income earners and women among low earners (due to their lower wages and generally shorter employment records), we also foresee increasing pension-related gender inequality. While the Women 40 programme positively discriminated in favour of women in terms of pension age, this did not lead to an increase in their pensions. The new legislation to ban the employment of civil servants of above official retirement age also affects women to a disproportionate extent as they are overrepresented in the public sphere. Working longer years thus also contributes to the higher pensions of men. In fact, while the overall share of male pensioners was 37.1 per cent in 2016, the share of men among the top 5 per cent of pensioners was 66.2 per cent (ONYF 2017). Figure 13 also shows that most women earned below the median pension, while most men received above the median pension. This gender difference in pension levels is very likely to further increase in the future.

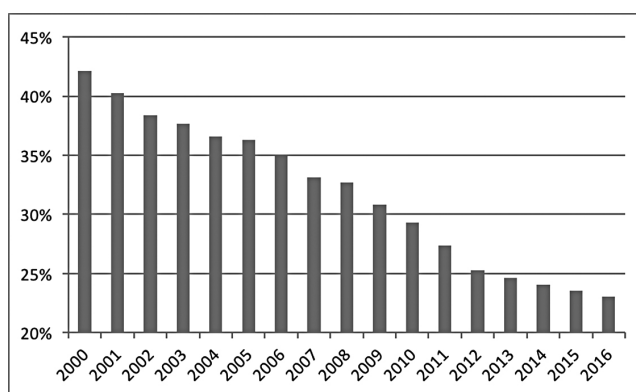
Figure 12. Number of old-age pensioners according to amount of pension and gender in Hungary, 2016



Source: Own calculations based on data of ONYF, 2017.

Another factor that contributes to the increasing inequality among pensioners is that the minimum pension level was frozen in 2008 and has not been increased up to the time of writing of this paper (June 2017).<sup>23</sup> The minimum pension is 28,500 HUF (appr. 95 EUR), one-third of the net average wage in 2016. Figure 13 shows that while average pensions have been adjusted for inflation, the minimum pension has not been indexed at all.

Figure 13. The amount of the minimum pension in terms of the average pension (%), 2000-2016



Source: Own calculations based on data of ONYF, 2017.

There are, however, only a few hundred people on minimum pensions in Hungary, and the majority receive benefits of a value similar to the average pension (see Figure 12). Around 6,000 people (who do not fulfil the criteria for old age pensions) are eligible for elderly persons' social assistance. This number is likely to rise in the future because of the incoming cohort with fragmented labour market records.

Due to high coverage rates and relatively beneficial replacement rates, the share of elderly people living in poverty has traditionally been low in Hungary. Four per cent of people over 65 years of age were living in relative income poverty in Hungary (below 60 per cent of the median income) right after the pension reform in 2013, as opposed to 14 per cent of middle-aged persons (between 25 and 54 years of age) and 23 per cent of children. While the share of poor children has somewhat decreased recently (19.9 per cent; still among the highest level within the EU), the share of poor elderly slightly increased to 6.8 per cent (HCSO 2015: 21).

## Conclusion

The Hungarian government partially privatized the pension system in 1997, obliging young people to enter the mixed pension scheme while making this optional for

<sup>23</sup> The reason for this is that all forms of social assistance are calculated as a percentage of the minimum pension in Hungary, including unemployment benefits.

other employees. The designers of the mixed pension system overestimated its possible positive effects, and at the same time downplayed its drawbacks. The greatest problems arose from the increase in the cost of the transition from a fully PAYG public to a mixed pension system, and high operating costs. External pressures, including the global financial crisis, the strict macroeconomic conditions of the EU, and Hungary's borrowing from the EU, WB and IMF, as well as the internal political and economic situation, lead to the decision to re-reform in 2011. The most important driver of the reform was the cabinet's intention to reduce the budget deficit and public debt, while getting rid of the international control of the IMF and the EU with a view to fulfilling its political and economic aims.

The reform process was far from democratic and transparent. Measures were introduced at extreme speed without public consultation. Trade unions, civil society groups, private pension funds and experts were not consulted, and no compromise was sought with opposition parties. The reform was legally designed as if former private fund members could freely choose whether to stay in the private pension pillar or opt for the public PAYG pillar. In fact, the circumstances for staying in were so unfavourable (the loss of a state pension in the future with no compensation if one stayed in the private pillar) that 97 per cent of people "opted" to return to the monopillar public scheme.

Resistance to the re-reform was surprisingly weak, despite the fact that private pension assets were overwhelmingly utilized for non-pension purposes like decreasing government debt. The government also failed to fulfil its promise to create individual accounts. No proper calculations or modelling were revealed by the cabinet and the impact of the changes was not properly evaluated. No transparent information about the use of the assets was communicated to contributors or beneficiaries.

However surprising it may sound, the overall impact of the re-reform is slightly positive, as it improved the financial sustainability of the Hungarian pension system and increased pension adequacy in the short- and mid-term. The improvement in the old-age pension system (that in fact led to a temporary surplus) was achieved through the exclusion of disability pensions from the system, and the complete elimination of early retirement possibilities. In other words, stabilizing the old-age pensions of people with a good labour market position was accomplished at the expense of the most vulnerable workers; that is, people with decreased labour capacities such as those with injuries, disabilities and long-term illnesses. If we account for the decrease in social rights of the above groups, the overall picture becomes gloomier.

Other measures also have led to contradictory outcomes. For example, while the positive discrimination of women in terms of retirement age improved solidarity between women and men, the cessation of the cap on contributions, and implicitly on pension levels, and the elimination of progressive income taxation together with the freezing of the minimum pension level increased the inequality within the

system. There is a danger that the transformation of the employers' contribution into a "social tax" generally weakened enforceable social rights. Hungarian pensioners, however, enjoy rather favourable coverage rates and average pension levels and thus are much less exposed to poverty than younger generations.

Taking the longer perspective, Hungary, after an intermezzo of 13 years, has returned to the old PAYG system created after the Second World War. There is not much chance that the country will depart from this path in the near future, especially now that the currently existing pension system based on a public and a voluntary pillar was incorporated into the 2011 Fundamental Law.<sup>24</sup> However, the prospects of the pension system in the long run raise some concerns, as reserves for future pensions have been used for other purposes in past years, while demographic processes and the meagre employment rates of people with low education levels suggest problems with adequacy that have not been addressed by Hungarian governments of the past quarter of a century.

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<sup>24</sup> Art. XIX(4) of the Fundamental Law states that "Hungary shall contribute to ensuring the livelihood 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."

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Review of

# **SOCIOLOGY**

of the Hungarian Sociological Association

**2017/4**  
**VOLUME 27.**

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