

PRO DOMO

AGE OF DISCRETION

Life expectancy was about 30 in medieval Britain. During the early 1600s, it rose, but only to about 35, with two-thirds of all children dying before the age of four. But even if a child survived the first five years of its fragile life, it was not expected to live longer than about 40 or 50. Similar, or worse, trends prevailed in other parts of the world, though they may have been less well documented.

Better sanitation and hygiene, improved communications and transport (which extended the range of potential marital partners, thus reducing the risk of harmful recessive genes), increased and better nutrition and the eradication of certain epidemics have all contributed to improved life expectancy in recent decades.

The scientific community still cannot fully agree on why almost all living things weaken and die with age. Darwinists may find it difficult to explain the evolutionary advantage of ageing. It may have an advantage for the long-term health of the community; but that doesn't explain why individuals that have ageing genes would be more successful than others without them. Not that this would matter at all. The fact is that the world is ageing rapidly. The World Health Organization puts forward an alarming scenario (see *Our Ageing World* at <http://wisdom.unu.edu/en/ageing-societies>). More than a million people turn 60 each month. The number of people over 65 will double, from 7 pct worldwide in 2000 to 16 pct in 2050. In the next five years, citizens over 60 will outnumber children under five for the first time.

Ageing affects all societies – high-income as well as low and middle-income societies – but at a different pace. Fewer and fewer active people have to take care (in the broadest sense of the word) society's more numerous inactive members. In rich countries, huge output, massive taxes and other revenues would insulate pensioners, who may have less to worry about. But is this really so?

In his study 'Population Ageing: Crisis or Opportunity?' (University of Essex) John Ermisch offers a comprehensive survey of all the implications of an ageing society. The central issue, of course, is how output can be transferred from those who produce it, to the retired population who only consume it. Having looked at various options one after the other, Ermisch concludes that as the ability of private savings plans and occupational pension schemes to meet this challenge is doubtful, state pensions will remain an important component of the retirement income. At the end of the day, permanent tax increases appear to be the only workable solution to balance the system in the long run.

Nearly all OECD countries face the need to reform their pension systems. For a longer working life, pension reform needs to go hand-in-hand with changes in the behavior and attitudes of all stakeholders.

Most countries have considerable manoeuvring room to increase the employment rate of persons aged 55–64. This issue continues to be a top priority for the OECD. In a recent report, it recommended that Hungary's priorities should be to eliminate any disincentives to continued work at older ages, easing business regulations, and reducing the tax wedge on labor income.

The OECD appreciated the actions taken by Hungary to tighten access to 'overly-easy' disability benefits, but recommended further reductions in implicit tax rates on continued work



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and phasing out the access to early retirement programs. The report showed that more than 11 pct of Hungarians aged 20–65 were receiving disability benefits in 2008.

The report showed that the average tax wedge for an unmarried and childless earner was well over 40 pct, among the highest in the OECD. This encourages tax evasion, informality and also depresses the labor market, the report said. Hungarian Prime Minister, Viktor Orbán, was quick to adopt the OECD recommendations. "Society must renew and maintain itself from within, not through external help," he was quoted as saying at a conference of EU ministers responsible for family policy, a scheduled event in Hungary's six month presidency of the European Union. "Work and family are the two areas in which Europe is losing the battle against other regions," he said.

Orbán's conservative government, which won a landslide victory in the polls last spring, has announced a long-term policy aim of "a million new Hungarians" by 2030 and the same number of jobs by 2020. "Both aims are ambitious but the general demographic trend in Europe suggests that the first could prove the more difficult to achieve", commented the English-language weekly Budapest Times. The explicitly pro-family policies introduced by the government so far extend to the restitution of three years for maternity leave and tax breaks that allow higher-earning families to claim a tax rebate of HUF 33,000 (EUR 124.05) per child if they have three or more. On the other hand, Hungary's convergence program, published on April 15, 2011, also contains specific steps for increased employment, including an extended public work program focusing on the Roma population.

As always, Hungarians view the government's ambitious plans with considerable skepticism. Those coming of age, believe the ultimate losers will again be the elderly, who now face increased living costs and shrinking benefits. The resurgence of an old joke reflects well the pessimistic public sentiment: pensioners may soon be allowed to cross the street against a red light. And from next year, it may even be made compulsory. ■