

The savings gap in Hungary

<http://arno.uvt.nl/show.cgi?fid=137633>

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Structure of presentation

1. Motivation: Extending generational accounting to the entire economy
2. What is generational accounting: what is it good for and what are its limits?
3. Projections: assumptions and scenarios
4. Results

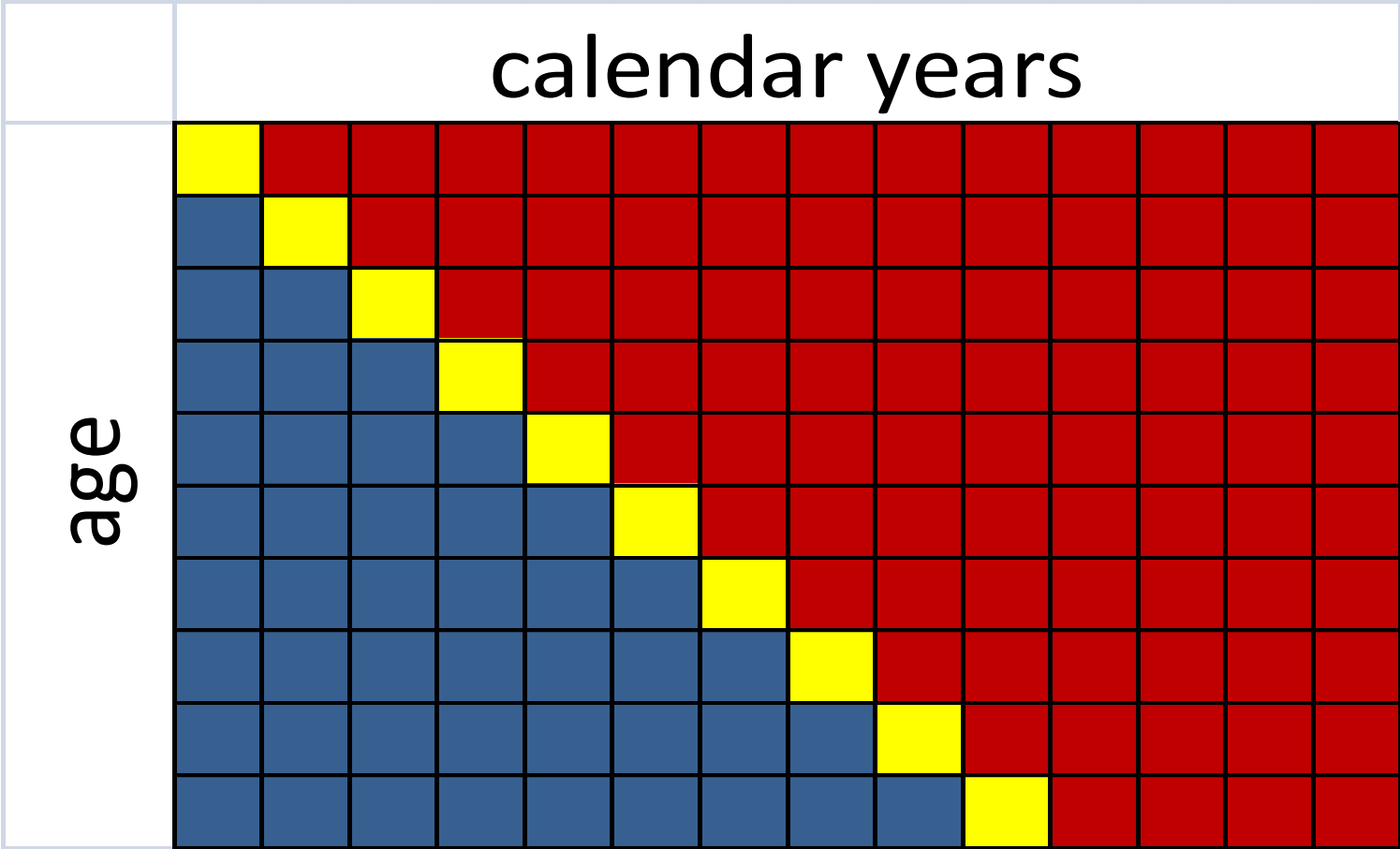
Generational accounting (Auerbach, Gokhale and Kotlikoff, 1991) is a simple projection technique measuring the sustainability of public finances

It measures the effects of the counterfactual stating that the age-composition of the tax-transfer system remains unchanged while the age-composition of society changes

Further assumptions: g, r ; population projection

Accumulating surpluses or deficits are assigned to the yet unborn

Deficits are covered by raising taxes or cutting expenditures



What is and what is not such an accounting tool with no behavioral responses good for?

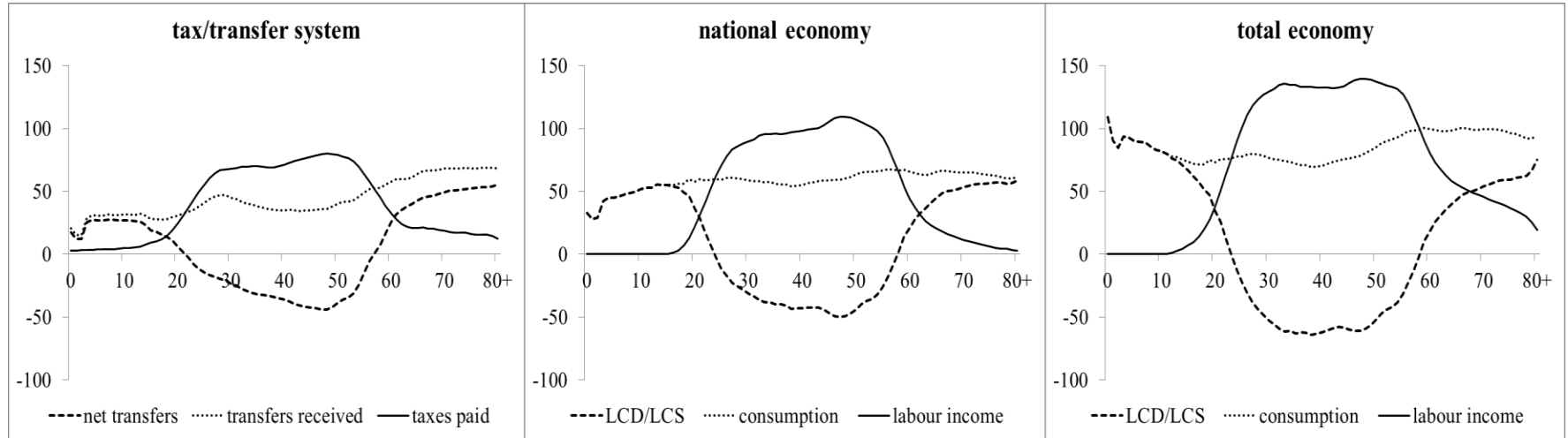
It does not predict expected deficits and tax rates

In the fortunate case it does not state of itself predicting the above things (the role of decisions by the researcher is minimal)

It reveals tensions: it predicts reforms and injustices among generations

It is useful in comparing reform scenarios

Extending generational accounting to the entire economy



Previous results:

- savings (Khuman and Weale, 2008; McCarthy, Sefton and Lisenkova, mimeo)
- fertility (Lee, Mason et al., 2014)
- investments in human capital (Loichinger, mimeo)

The balancing mechanisms, and the resulting sustainability indicators, are different

Projections on Hungarian data

We fix the age-profiles of labor income and consumption of 2012 and in a projection exercise we combine them with expected future demographic age-profiles of population

Two balancing items:

- additional savings
- one-time capital injection (windfall capital)

which keeps the aggregate difference of consumption and labor income at the 2012 level

Two alternative scenarios:

- projection of the total economy (national economy and household economy combined)
- projection starting from 1995 (demographic window of opportunity; pre-funding experiment in the Hungarian public pension system)

The Hungarian pension reform 1998-2011: demographic window of opportunity; pre-funding and near-complete reversal

Results:

	base case	household economy included	demographic window opens
if gap is balanced exclusively by capital endowment it takes ... % of national income			
	307	259	209
if gap is balanced exclusively by capital endowment it is depleted in ... years			
	88	120	beyond the projection horizon
if gap is balanced exclusively by savings total saving rate is ...			
	8.07	7.21	6.31

Notes: Base case: 2012 age-profiles of the national economy; household economy included: age-profiles of the total economy (including the household economy); demographic window opens: projection starts in 1995.