

Analysis of the Hungarian Family Support System in Perspective of the Current Demographic Trends

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Welfare state formed in the second half of the twentieth century is the institutionalized form of social solidarity. Its main objectives include the creation of livelihood and equity, the equation of the life chances and the distribution of goods. These objects are primarily provided through income transfers and social benefits system. Due to the current social, demographic changes the welfare systems are under pressure in most European countries (including Hungary). I think within the welfare expenditures, the family support system has now more important role than ever before, because it has to face two social challenges simultaneously:

- ✓ Biggest challenges – this topic is a priority in my study – are the demographic changes, especially the decrease of fertility, which shifts off more and more financial burden to the society, and questions the future sustainability of the welfare states. The decrease of birth rates combined with an aging population means that less and less active workers have to finance the increased number of inactive population, which leads to budget deficit.
- ✓ In addition, the burden of welfare state aggravates that among some EU member states, including Hungary, increased the child poverty, which is none other than the intergenerational transmission, “reproduction” of poverty. This trend could speed up in the long run effected by the aging population, because the insecurity, the scarcity and the lack of appropriate models do not lead to socially accepted norms.

Although these are independent phenomena from each other, they have the same effect: erosion of the active population combined with the number of “dependents”, inactive population – whether it is retired or unemployed social groups. Based on this, the importance of the children should be a priority topic in the welfare policy. The root causes of both problems should be managed through the family support system.

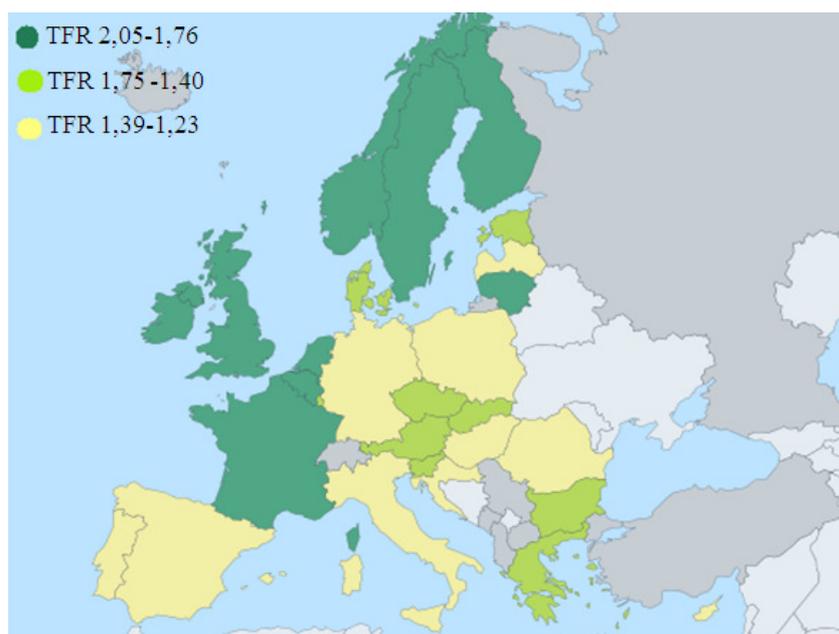
Basis for my research could be the fact, that although Hungary has been devoting for years a lot for family support (e.g.: in 2010 was the spending for family support – in terms of GDP percentage – in Hungary the 8th highest (Eurostat, 2011a) among the EU member states), was not capable to reach a significant positive change in the fertility rate trends. The main objective of the research is the analysis of the - in the Hungarian family support system dominant - financial support forms in the projection of decreasing birth rates, keeping in mind the long term sustainability of the welfare system. This research does not mention the support forms offered by the taxation system.

Challenges for the demographic policy in the European Union

In my study I examine the total fertility rate (TFR) ¹ among the demographic indicators, as this ratio gives the most comprehensive picture from the demographic factors, the future size and age structure in a country. To ensure the “survive”, reproduction of the population, the TFR of developed countries should be close to the 2.1 level (KSH data base/eurostat tables, 1990-2011), namely the reinforcements is only possible, when the number of children replace the generation of their parents, i.e. the index value should be more than 2. The fall of the rate below 1.3 in a long term results in rapid decrease, disappearance of population.

To these days formed in the European Union three fertility regions (see diagram 1) (Eurostat, 2011b). The north-, north-western countries have the best TFR. In 2011 the average fertility rate of this region was around 1.9, of them were outstanding Ireland (2.05) and France (2.01). The mid-field region was characterized by a fertility rate from 1.4 to 1.75 and the majority from them were southern state. The lowest fertility rates were in Central Europe, where the regional average range was around 1.32 in 2011. Hungary has been categorised for many years in the lowest fertility region, the problem is exacerbated by the fact that since 2011, among the EU member states our country has the lowest child willingness.

Diagram 1: Evolution of the total fertility rate in 2011 in the EU



Source: on the basis of Eurostat 2011b/Population and social conditions/Population database

The decrease in fertility was since the 1950s although in different degrees, but in all European countries observable. In most of the former socialist countries the end of the communism accelerated this process. The timing of the childbearing delayed constantly, while in 1990 in our country the average age of the mothers (at the first child birth) was 23 years (KSH, 1991), in 2011 this age limit has been increased to 30

¹ The fertility is measured by the total fertility rate in the statistics, which is a hypothetical number of children counted on the number of women in childbearing age, how much children would have a women in her lifetime, if the current year rate would constant throughout her whole life.

years (Üveges, 2013). Several attempts have been made to control, reverse this negative trend. The emergence of cash benefits, the expansion of entitlement of family supports, the introduction of family-friendly taxation system although reduced, but did not stop the declining trend in fertility. This is supported by the latest EU report (European Economy, 2012) about the aging population, according to that the proportion of older people will be much higher than actual, 30% of the Europeans will be 65 or older in 2060.

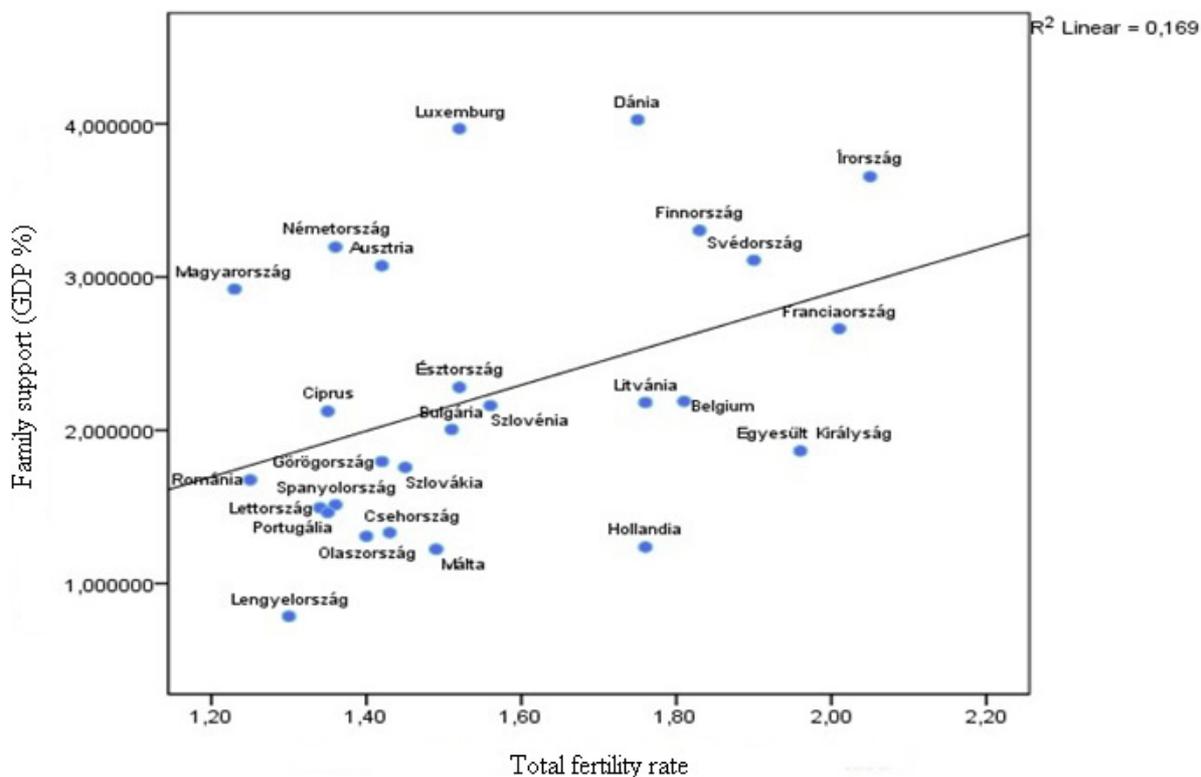
In connection with the European demographic aging process have been formulated two scenarios (Huisman & Imhof, 1999), one is uniform and moderate, while the other prognosticate from country to country, differential, more radical aging picture. Although both scenarios differ in the future deterioration of demographic data, both visions agree that the demographic aging will have in two horizons serious consequences. Compared to the present status there is expected a sudden deterioration in the 2020s, when those who born in the baby-boom period reach the age of retirement, hereby they increase suddenly the elderly population and reduce the number of working-age people. The subsequent decline is predicted in long term in 2050, there will be - because of the low birth rate in the past decade - a more radical reduction in the number of the active population compared to the present. The scenarios agree that those member countries where the age structure is better and younger, are looking forward to a significant population decline in the future, as the statistics show that their age composition are gradually getting closer to the EU average. This is evidenced by the fact, that compared to 2005, the aging index for all EU member states showed increase (Eurostat, 2011b). With this information, all EU state is interested in that, to reverse or at least to curb the negative processes with different population policies.

The impact of the EU family support systems on the fertility

According to the economic theory of fertility, the financial family supports by reducing the fix costs of having children, can positively affect the fertility. This hypothesis is examined in the first part of my research. The comparison is complicated by the from country to country different and diversified family support system, and the fact, that there are some non-social political measures they affect indirectly the family policy. During the examination of the impact of family benefits on fertility, in all countries were compared the expenditure on family supports in 2010 (in terms of GDP percentage) with the total fertility rate from 2011.

The family support in terms of the GDP% shows, how much a member state compared his opportunities spends for family political purposes. The time lag between the two criteria is the basis for the impact assessment, are the decisions to start a family in 2011 affected by the in 2010 available family support amounts? I fitted a so-called trend line on the data with aimed with the SPSS application to show, whether is there any connection between the two criteria or not. The investigation resulted in a rising trend line, which meant a positive relationship between the two criteria, thus suggested, that the more a member state for family support (in GDP %) spends, the higher is a country's willingness to have children. However, the correlation coefficient of the EU family supports (in GDP %) of the member countries and their total fertility rate was only 0.411 (at 5% significance level), so I came to the conclusion, that this relationship is weak, insignificant.

Diagram 2: The impact of family support systems on the total fertility rate



Source: Own calculations based on EUROSTAT, 2011a data and Gábos, 2004

The diagram 2 confirms that, as there is a few country, who spend relatively the same amount for family support (in terms of GDP), but the effects on fertility have significantly differences. Hungary is a good example, where among the countries with similarly low fertility rate appropriates a significantly high percentage of GDP to family support, however, the expected effect is not occurred. The weak link could explain:

- on the one hand the fact, that it matter what forms of family support are present in the country, (Not necessarily affects such a family support system on fertility, which gives a high, but not well targeted amount, or gives well targeted but low amount of benefits.)
- on the other hand, that the amount of transfer income paid to family households is not the only and most important factor in parent's children decisions.

The current Hungarian family support forms

I have already mentioned in the previous section, view of the fertility is matter what forms of family support has a country. In the Hungarian system are the financial benefits dominant, which have 3 major types:

- subjective right,
- income tested and
- insurance based care.

Subsidies provided through the family support system all have impact on fertility, income inequality and on the labour market situation of women. Supports with

subjective rights are so-called universal benefits, which can be taken from any member of supported target group, and the eligibility criteria is independent from the current as well as the past income situation. These benefits are generally intended for families to ensure the income equality, however, if not so highlighted, but serve demographic aims targets too. This is true in the case of family allowances for the horizontal redistribution too, where the resources from one of the favourable groups (households without children) are moving towards the other handicapped groups (households with children). Within the family subsidies, the universal benefits are the most expensive, but concerning the administrative costs also the cheapest, because their eligibility system is simple and transparent. In the current family support system are the child benefit and the childcare allowance universal supports. The child benefit gets all families with children and the amount vary depending on the number of children and the family structure. In 2010² this form of support was linked by the government to fulfilment of compulsory education. If the number of unjustified omissions in case of school age children, get up to 50 hours, the child benefit will be suspended. After that will be reviewed every three months if the student goes to the school, the child benefit will be only transferred (in form of fringe benefit), if the student has never missed in this three month period. The childcare allowance (“GYES”) is also independent from income and insurance. The amount is the same as the minimum of old-age pension. The support can be resorted until the third year of the children.

The income replacement, income tested supports aimed the poverty reduction the strongest, because the eligibility criteria is the lower income at this form of support, so these subsidies serve clearly social-political purposes. Just like the vertical redistribution, where the state allocates subvention to the lower income bracket distracted it from the members of the higher income level. The selective income-related benefits provide discretionary support, the entitlement to the allowances is based on a subjective consideration, striving to, that only those receive the support everybody in need. Just therefore, this method is complicated, not so transparent and expensive, because it requires a detailed environmental study. In the case of income-related supports the determination of eligibility level can cause major problem. Namely, the stricter a regulation is, the more will be the number of those who need assistance, but they do not receive it. In addition, a more lax a control is, the more person “free riders” gets support who not really need it. While in case of universal support it may not fear that the entitled is excluded from the system, but it could happen with the income-related benefit, such as: the person is not poor according to the specified characteristics. Income replacement support is the early childcare supplement “GYET”, also known as child rising support, where entitlement is not subject to any income-test, yet it is paid for social-political purposes. The assistance is available for the parent, who has three or more minor children, and the youngest is between two and eight year. The amount of the early childcare supplement is equal to the minimum wage of the retirement pension.

In terms of the employment policy the insurance based benefits are important in the family support system, as the eligibility criteria is related to payment of contribution, so it can have a work incentive effect. The presence of this type of subsidy in the family support system is also essential, since in most cases the fertility can only increased at the expense of employment. Not at least these family supports work as a kind of brake system contrary to some support forms, which can easily induce unemployment trap for some sector of society. Insurance based benefit is the

² 1998. yearly LXXXIV. Family support act.

statutory maternity pay “GYED”, also known as childcare fee, which is available till the child is one year old, and its amount is income proportional, 70% of the average earnings up to twice the 70% the amount of the minimum wage. This type of assistance is able to use only, who have been insured for 365 days in the prenatal period.

As the family policy is used for several social-political purposes too, the toolkit of the different policies deliberately or inadvertently sometimes affect in the same direction, at another time they can achieve explicitly contrary, mutually weaken redistributive effect.

Table 1: family support forms and their effects

<i>Support forms</i>	<i>Which political aim serves it?</i>	<i>Effect on other social policy:</i>
Child benefit	Population policy ³ Social policy	The two policy reinforcing each other
Childcare fee „GYED”	Employment policy	Negative impact on social political objectives
Childcare allowance „GYES”	Population policy	Affects against employment political purposes
Child rising support „GYET”	Social policy	Affects against employment political purposes

Source: Szilvia Závecz, 2012

Among the current family support forms the child benefit is the only one, which serves simultaneously two social-political objectives, without to harming another social purpose. All other support has negative effect on social-, or employment policy. Childcare fee is only available for those, who have been insured for 365 days in the prenatal period, this fact could exclude from the support system some people with special status, such as mothers who gave birth young and did not have proper employment before birth, that’s why the child benefit have negative impact on social-political objectives. The childcare allowance affects against employment-policy, because it is a subjective right support, independent from income and insurance status and available for over 3 years. The range of child rising support requestors is in the lower income level higher. One explanation for this could be that in our country belong a lot of families with 3 or more children to the lower income households. On the other hand, the child rinsing support can be paid either for the longest period among the family support forms. It could easily induce an unemployment trap, as with conscious family planning the problem of employment – in point of the households - is “solved” for a longer period.

In 2013 the government developed a concept for demography, as part of that the single maternity benefit after the first child would be increased from 64 thousand HUF to 288 thousand HUF. The significantly increase of the support would trigger an increase in fertility, namely according to some assessments, several pairs reject or delay to starting a family, because of the expenses of the first child birth. If with the subsidy could be achieved a “less” age of the mother at the first child, this could affect the newer, second childbearing decisions as well. However, as side effect of the support could increase the number of those who have a “child for livelihood”. The government want to remedy so this problem, that the support could be taken only

³ In the analysis those subsidies are classified as a population policy tool, which with application horizontal redistribution target all households with children.

from mothers over 18 years. The concept is including also the changes and extension of the childcare fee's eligibility. The state does not eliminate the disbursement, when someone gets another baby before the payment deadline or starts to work again. The concept also covers the improvement of labour market situation for mothers with 2 or 3 children. As part of occupational safety action plan in case of these mothers employers can request contribution discount. The question is, does the government have enough fiscal frameworks to implement the planned concept measures in 2014, and is it really reachable the expected fertility improvement by these measures?

Began of the Hungarian family policy

There are a lot of doubt in the case of family support systems concerning impact and efficiency. There is neither any conclusive research result, and nor any well-trodden path that could be followed uniformly. Each country has to recognize and deal with those causes that triggered the decrease of the population. The demographic trends have an impact in the long run, even that's why I consider worth analyzing the causes of changes in the past and the applied family political measures to response these factors, which all developed the current demographic situation.

The Hungarian fertility data is available since 1876. Despite this year's high infant mortality rate, there were five children in an average family, the total fertility rate was around 5.3. The low pace decline of fertility began in the mid- 1880s, and in the beginning of the twentieth century increased slightly. In 1912 has been introduced the child benefit, though quite small layer, only the state public servants had access. During the First World War occurred a transient but significant fall in the rate. Hungary had one of the highest birth losses due to the war among the participant countries (Andorka, 1987). However the birth rate increased in the years following the war, but reached no longer the level before the First World War, the total fertility rate was only 2.8 in 1930. The gradual decline in the fertility rate re-accelerated again in the early '30s. This phenomenon was already observed in several European countries, although the fact, that our country had the highest rate of decrease (Varga, 2007). The Second World War period did not leave such a big mark in the Hungarian fertility rate figures as the first did. The rising fertility rate was typical for the post-years, but it was not as spectacular (Kamarás, 2000). From the 1950s, the re-acceleration of fertility decline attracted the attention of politicians. The Nr. 1004/1953 (II.8) law was created, which became known under the law as Ratko and its main point was the abortion ban (Kamarás, 2000). The law induced sizable increase in numbers of births, the fertility rate reached the value of 3 in 1953. The strict measures did not enjoy popularity it was alive only just one year, in 1954 the government decided to abolish the ban. This action caused a decrease in fertility which was not seen before. Also in the European context had our country already the lowest birth rate (Kamarás, 2000). Our total fertility rate reached the low point in 1962, which fell back to 1.8 (KSH, 2012). According some demographers the defeat of the revolution in 1956 played also a role in the radical decline of the number of births, because the strongest reduction was in such social layers, which felt themselves clearly the losers of the revolution (Varga, 2007). The fertility rate between 1962 and '65 had a small increase. It became clear for the government, that (despite the slight increase) the stable low birth rate will have negative socio-economic problems in the future.

By the beginning of the early '60s there have been significant changes in society, the dual-earner family model, the employment of women became common. It was

obvious for the government, if they want to vitalize the mood to have a baby, such measures are necessary, which aim at the releasing of the tensions between the maternal- and job participation. Based on that was introduced the childcare allowance in 1967. It was available till the child was 3 years old, was a fix amount added up to the quarter of the average salary of women. Following the introduction of childcare allowance the mood to have a baby picked up again, but its effect did not last long, from 1969 another decrease occurred. In response, the government introduced in 1973 a new complex measure package to encourage having children, which tightened the laws relating to the abortion, and increased the amount of child benefit and childcare allowance. As the Ratko law from 1953, so the impact of this new restriction to abortion was significant on the total fertility rate, which amounted to 2.38 (KSH, 2012) in 1975. This rise was not also substantial, between 1975 and 1984 started a dramatic decrease⁴ in the total fertility rate fell down to 1.7 in 1984, making it the natural population growth ceased, and began the decline of population. The government has developed a long-term concept of population in 1984, which urged the universalization of family with more children and the improvement of the health of the population. The most significant action was the partial replacement of the childcare allowance with the childcare fee. The measure emphasized the social usefulness of having children among the women with higher income level. As a result of the action the total fertility rate increased slightly, from 1987 softly but it got closer to the 1984 value. Since the early '80s the trend of declining fertility has been accompanying with the "aging" of the mothers, which gradually reduced the number of families with more children. The slight increase between 1990 and 1991 was caused by those who were born in the first half of the 1960s and they already entered in childbearing age. From 1992 till 1999 occurred a new large-scale loss. In the background of that were some complex, socio-economic changes, such as the emergence of unemployment due to the workforce oversupply, or "the fear for jobs" and the negative discrimination in the labor market against women with small children. The government measures at that time also accelerated the decline in birth rates. However the child rising support and the pregnancy allowance was introduced in 1993, the Bokros-package had a negative impact on birth rate. In the framework of the package the childcare fee was abolished, and they made the childcare allowance and the child benefit depending on the income. Due to these measures, some families postponed indefinitely to having children. In 1999 following the change of government the new cabinet tried to restore the parts of the family support system, the child benefit became universal, the eligibility criteria (income level and insured status) of the childcare allowance was eliminated, and in 2000 the childcare fee was restored. In the following years new form of family support did not appear, only the amount and term of disbursement for old subsidies were changed by the government. In 2002 the child benefit was increased by 20% and the 13th monthly was also introduced. From 2006 the entitlement of childcare allowance has changed, a mother could work up to 8 hours a day, after her baby was 1 years old. The economic crisis in the fall of 2008 and the austerity measures have had an impact in declining fertility rates. As part of the Bajnai restrictive package in 2009 the 13th monthly child benefit was abolished, the payment of childcare allowance and childcare fee was changed from 3 to 2 years. This last measure was restored to three years by the Orban cabinet in 2011.

From the analysis become known, that the government interventions have not been able and today are also not able to change the fundamental fertility processes in

the long run. Since the launch of the first family support form (child benefit) in 1912 – with some short term fluctuations – our fertility rate have been reducing. All the short term growth period can be associated with a family support measure, and it can be observed too, that the rate response more sensitively, radical and longer on those measure which have negative effect on fertility as on the incentive ones.

Summary

Hungary became in the last few years the country with lowest fertility rate among the states of the European Union, which can lead in long run to non-financeability of the welfare state. The government try to influence positively the mood to have children through the family policy. The Hungarian government spends from year to year significant amounts on children support, while the population decrease rate can not be reduced. I was looking for the answer in the study, could be influenced the fertility trend with economic measures, and how it could be evaluated the domestic experiments.

The first analysis – the impact assessment – showed that there is on the EU level a weak relationship between the fertility rate and the level of family support spending. According this, countries with generous family support system do not necessary have a high fertility rate. The poor correlation between the two criteria may explain that the size of transfer income paid to the households is not the only and most important factor in parent's decisions about starting a family. It can be assumed that the improved overall economic outlooks have positive effect on birth mood. This phenomenon could be also explained by (Lakner, 2008):

- with the extended insurance period of the infrastructural conditions of the family life,
- with the increasing women's participation in higher education, and their strengthening
- career building,
- with the compatibility difficulties between the family and the workplace,
- with the weaken stability of marriages,
- with the rising costs of childbearing,
- and last but not least with the swampy, unstable family support systems.

The constant change, the uncertainty and the value preservation of subsidies in our country are complicating the family plans about children. The government measures which affect negatively the fertility have powerful and long-term effects. To decelerate the negative demographic trend, an undoubtedly, long-term, for more elective cycles available population policy is required.

It is also important to make it clear, we got so far from the simple reproduction level, that in the near future can only be a realistic goal to decelerating this downside. Family policy attempts in the past to improve the fertility suggest, that although in short term the demographic situation could be improved through cash benefits, but in long run only with these facilities could not be curbed the adverse demographic trends. The lessons of European fertility success stories are, those countries can keep the fertility level high, in which the family policies the whole cycle of child rearing embrace and versatile support.

We should not forget the fact, that the population policy problems not hitting only the gipsy population. Their share is rising so rapidly, that according some prediction

(Hablíček, 2000) by 2050 it will be more than the non-gipsy proportion. This could be - in aspect of population policy - a solution for worrying demographic difficulties, but the problems are not so easy to remedy, as the gipsy population is characterized by low levels of education, therefore their employment rate is extremely low. Exactly for this reason is important, that within the family policy the social- and employment political objectives should also get emphasis beside the population policy.

The question arises from the results, if these support forms are not sufficiently effective, which other options will remain concerning the sustainability of welfare state? Solution could be (Kamarás, 2000):

- the extension of the retirement age, in proportion to the elongation of expected age, which relatively slow down the rapid decrease of the number of active aged,
- increasing the population with migration policy (can be successful only in case of social consensus),
- reform of old-age benefit system (requires the principle of solidarity between generations).

Other solution could be the introduction of a pension system, which connects the economic security of elderly parents with the number of their raised children, and the amount of contributions paid by these children. The conclusion of my study is that our country spends a lot on family support, but the impact on fertility is negligible. Nevertheless I consider it important that funding for children should not be harmed, because they are our future, and at best they will finance this welfare system as well.

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