



The Public Defense
of the Doctoral Thesis in Economics

by

Ágnes Horváth

on

ESSAYS ON PENSION SYSTEMS, MOBILITY AND WELFARE POLITICS

will be held on

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Monument Building, Senate room of CEU
Central European University
Nádor Street 9, Budapest

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The doctoral thesis is available for inspection
at the CEU Economics Department

Abstract

The thesis consists of three self-contained papers. Chapter 1 is a theoretical paper dealing with the question whether the pension treatment of temporary migrants from Eastern European countries to other EU countries has an impact on migration decisions in terms of the length of their stay and their choice of the host country. Chapter 2 is an interdisciplinary paper discussing public preferences on poverty assistance, containing both a theoretical model and an empirical analysis. In the model, the optimal level of compensation for the poor is based on the deservingness principle and observable income is used as a noisy signal for effort. In the empirical part, the two propositions of the model, namely the existence of the poverty-assistance paradox and the poverty-stereotype interaction are tested. Chapter 3 is focusing on the question why pension expenditures rose so rapidly in all countries in the postwar period and with so little political opposition. We extend the simple model of redistribution of Persson and Tabellini (2002) to investigate the generational conflict between the young and the old. We introduce different pension system types and immigration to the simplified original model. In addition, based on the special Eurobarometer 56.1, we carry out an empirical test on the hypothesis that people would redistribute more towards pensioners in those countries that are characterized by a Bismarckian pension system than those with flat-rate pension systems if they think that the poor does not deserve social assistance. Note that Chapter 3 is linked to chapters 1 and 2 by combining different pension system types, migration and the deservingness principle.

Should Eastern European temporary migrants care about their pension treatment?

Chapter 1 deals with the question whether the pension treatment of temporary migrants from Eastern European countries to other EU countries has an impact on migration decisions in terms of the length of their stay and their choice of the host country.

The European portability scheme guarantees the eligibility to proportional welfare transfers and benefits of the host country in case a migrant would work abroad for at least 12 months. While the effect of the social security system, in particular the type of the pension system is typically only one of the many determinants in permanent migration decisions, it can be a highly relevant factor when it comes to temporary migration.

A simple model is built to investigate the hypothesis that differences in European social insurance, in particular public pension system types have an effect on the optimal length of stay abroad. It is assumed that the lifetime utility of a migrant is determined by the mixture of his home and host country's labor income and pension benefit. The focus is on temporary migrants, i.e. those who return to their home country and for this reason a strengthening 'homesick feeling' is introduced that reduces the utility that can be gained by working abroad.

The model suggests that the optimal period of time a migrant should work abroad during his lifetime depends on the wage and pension benefit differential between the home and the host country, the total cost of the movement, the time spent in retirement, the discount factor and the degree of homesickness.

A thorough analysis of all the factors determining the period of time working abroad gives intuitively plausible results, including the role of the Bismarckian factor, i.e. the degree of redistribution in the pension system, in the optimization. In the case of higher wage workers where the earnings-related part of the pension benefit dominates the basic component, the higher the Bismarckian factor, the longer it will be worth to work abroad. The opposite will be true for low-wage workers who would not profit from the earnings-related part of the benefit formula.

The main conclusion of the paper is that different types of pension systems give different incentives to migrants to work abroad. Moreover, depending on the foreign wage level the threshold value of whether to choose a country with a flat pension system or an earnings-related one can change considerably.

Uncertainty, Poverty Attributions and Welfare Preferences

(joint paper with Béla Janky)

Chapter 2 is an interdisciplinary paper discussing public preferences on poverty assistance, containing both a theoretical model and an empirical analysis. In the model, the optimal level of poverty assistance is based on the deservingness principle and observable income is used as a noisy signal for effort. In the empirical part, the two propositions of the model, namely the existence of the poverty-assistance paradox and the poverty-stereotype interaction are tested.

We build a simple model of public preferences on poverty assistance. The model draws on attribution theory and points to deservingness as a key concept in voters' minds. Hence, voters are driven not only by self-interest when expressing their policy preferences on the assistance for the poor. Their opinions are also based on a

sense of fairness and justice: they are ready to support those in real need. At the same time, principles of fairness and justice do not imply blind egalitarianism. Taxpayers support financial assistance only for the deserving poor whose poverty is a result of bad luck but not lack of efforts.

In the model, a compassionate citizen would like to fully compensate for any effect of a diligent poor's misfortune. In case of perfect information, the lower the diligent individual's observed income, the higher compensation is preferred by the citizen. A lazy individual, on the other hand, would get nothing. However, the citizen faces an observational problem. Low income could be a signal of bad luck as well as low effort. The exact relationship between the observed income of the poor and the citizen's judgment will depend on the observer's prior beliefs on the poor individual's personality, and on the role of efforts and luck in his achievements.

Proposition 1 states that in societies in which hard work, instead of luck, is believed to foster success, a kind of poverty-assistance paradox can emerge. A negatively stereotyped poor person could face a risk of losing transfers as he becomes even poorer, in spite of the fact that compassionate citizens intend to fully compensate the deserving poor people for any loss of income. What is more, in a strongly work-oriented society, even the (*a priori*) more trusted individuals could experience the effect of the poverty-assistance paradox, should they become poor enough.

Proposition 2 states that in societies where voters are skeptical enough about the role of effort in economic success, welfare recipients with incomes somewhere between the levels of an average citizen and a typical undeserving poor person, are increasingly prone to be judged by prior stereotypes (positive and negative ones alike) as they become poorer. More exactly, the difference between the compensations of two equally poor but differently stereotyped individuals increases as they become poorer.

Based on a questionnaire survey, in the framework of vignette-method, we investigate the influence of beneficiaries' characteristics, in particular ethnicity on the preferences of the median voter. While the data do not provide significant evidence for the existence of the poverty-assistance paradox, results give support to the theorem on poverty-stereotype interaction.

Immigration: A Remedy or Curse for Native Welfare Recipients?

We extend the simple model of redistribution of Persson and Tabellini (2002) to investigate the generational conflict between the young and the old. We find that

age indeed might influence views on budget tradeoffs. We are considering three cases. In the first case, we introduce a lump sum transfer to the working population and as a result *ceteris paribus* redistribution towards the old will be less. Second, we find that pension system types might also play a role in the degree of redistribution. In the case of an earnings-related pension system, the before mentioned decrease in the redistribution towards the old will be less compared to a flat-rated system. Based on the special Eurobarometer 56.1, we found support for our hypothesis that if people think that the poor does not deserve social assistance, they would be ready to redistribute funds towards pensioners. Moreover, these people would redistribute more towards pensioners in those countries that are characterized by a Bismarckian pension system than those with flat-rate pension systems. Finally, we illustrate the case of immigrants within the same theoretical framework. We find that under certain conditions, a more liberal migration policy launched to lessen the burden of an ageing society can result in an even higher concentration of funds towards the older generation.

In addition, one can combine the results of pension system types and immigration. If low-skilled and welfare immigrants arrive to the host country, under certain conditions both the income inequality and the potential share of young welfare recipients might increase in our model resulting in a relatively higher redistribution towards the old. Moreover, this mechanism is more pronounced if the pension system is earnings-related. Hence, our simplified model suggests that Bismarckian pension systems would be more robust to massive low-skilled immigration than Beveridgeans.

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EDUCATION

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PUBLICATIONS IN ENGLISH

- Katalin Szilágyi, Dániel Baksa, Jaromir Benes, Ágnes Horváth, Csaba Köber and Gábor D. Soós (2013): The Hungarian Monetary Policy Model, MNB Working Paper Series, No 2013/01.
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PUBLICATIONS IN FOREIGN LANGUAGE OTHER THAN ENGLISH

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