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Entitlement Reform and Fertility: Restoring the Family-Friendly Roots of Social Security

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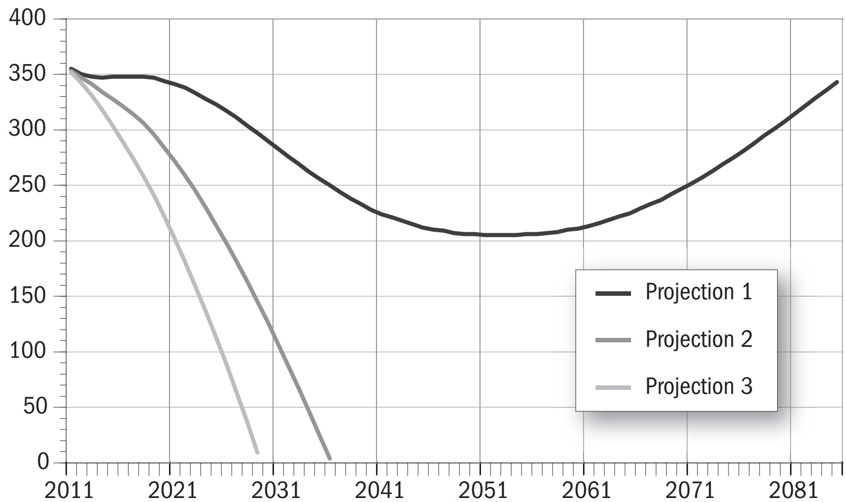
When Rick Perry called Social Security a Ponzi scheme, the Republican presidential hopeful did himself few favors if he becomes the GOP nominee to challenge President Obama in 2012. At the same time, the Texas Governor may believe that his characterization of the relatively successful and popular social-insurance program is justified, in part, by the data in Chart 1 on the following page. That chart shows the assets held in the Old Age, Survivors, and Disability Insurance (OASDI) Trust Fund as a percentage of projected annual costs. "Projection 2" is the Social Security Administration's most recent "intermediate" estimate for the future, showing a near-peak surplus of 353 percent in the trust fund as of this year (2011), but falling to 272 percent in 2021; to 107 percent in 2031; and then to zero in 2037, just twenty-six years from now. Even as the "intermediate" projection represents the Social Security Administration's "safest" projection seventy-five years into the future, the OASDI Trustees' report concedes that "significant uncertainty" surrounds all three alternative projections, as the numbers are influenced by a number of demographic and economic assumptions, as identified in Chart 2, that may or may not hold true.

The OASDI Trustees base their three projections on eight variables: the Total Fertility Rate, or TFR (the average number of children born per woman over her reproductive lifespan); the average annual change in

Chart 1: Long-Range OASDI Trust-Fund Ratio Projections
(Assets as a percentage of annual cost)



Source: 2011 OASDI Trustees Report, Figure II.D6,
<http://www.ssa.gov/oact/tr/2011/II_D_project.html>.

age- and sex-adjusted death rates; annual net immigration; annual productivity changes; shifts in the average wage; the Consumer Price Index (CPI); the unemployment rate; and the annual trust-fund interest rate. Again, the assumptions used to produce the claim of trust fund "bankruptcy" by 2037 in Chart 1 are the "intermediate" estimates. In making these assumptions, the actuaries relied on recent experience, and then more or less assumed that what has recently been, will continue to be.

On one hand, this seems altogether reasonable. On the other hand, the "intermediate" projection all likelihood will be wrong. It assumes stasis—no change. Over seventy-five years, the odds of a "shock," or unexpected disturbance, in one or more of these variables is almost certain. The problem, of course, is that the nature and timing of such shocks cannot be predicted. To choose one relevant example, during the 1930s, the architects of the Social Security system assumed that the nation's TFR, which had fallen to 2.2 children in 1935, would remain at that low level, just enough to replace the population. They completely failed to foresee

Chart 2: Long-Range Values of Demographic and Economic Assumptions

Assumptions	Intermediate	Low Cost	High Cost
Total Fertility Rate (TFR), starting in 2035	2.0	2.3	1.7
Annual average percentage reduction in total age- and sex-adjusted death rates, 2010–85	0.78	0.32	1.31
Annual net immigration (in thousands), 2011–85	1,075	1,385	785
Annual percentage change in productivity (total U.S. economy), starting in 2021	1.7	2.0	1.4
Average annual percentage change in average wage in covered employment, 2021–85	4.0	3.6	4.4
Annual percentage change in Consumer Price Index, starting in 2019	2.8	1.8	3.8
Annual average real-wage differential (percent), 2021–85	1.2	1.8	0.6
Unemployment rate (percent), starting in 2021	5.5	4.5	6.5
Annual trust-fund interest rate (percent), starting in 2022	2.9	3.6	2.1

Source: 2011 OASDI Trustees Report, Table II.C1., <http://www.ssa.gov/oact/tr/2011/II_C_assump.html>

the postwar Baby Boom, which commenced in the early 1940s and raised the TFR to a high of 3.8 children by 1957.

Similarly, when Congress passed the Social Security Amendments of 1972—immediately raising pension benefits by 20 percent and indexing all future payments to increases in the average wage—it built its projections on the TFR experienced in 1960–63, the tail end of the Baby Boom, namely 3.6 children. In fact, the TFR had already fallen below 2.1 children in 1971; moreover, Congress was aggressively pursuing population-control measures—such as the Title X birth-control crusade in 1970 and changes to Medicaid (Title XIX) in 1972 that would reimburse the states nearly all of their costs of promoting and dispensing contraception—designed to cut birthrates further. Indeed, Senator Paul Fannin of Arizona blasted his colleagues at the time who promoted this "extravagant" pension "spending scheme" based on assumptions of rapid growth, while also advocating "zero population growth and even zero economic growth in the name of ecology."[1] All the same, Title X, as well as the 1972 Medicaid changes, passed almost unanimously.

Now, the Social Security Administration does build into its projections possible variations. Note on Chart 2 that the so-called "low-cost" and "high-cost" values involve only modest changes from the intermediate numbers. Even so, the possible effects are large. For example, the low-cost fertility assumption of 2.3 children per woman is just as close as the "intermediate" number to recent American experience, as the TFR was 2.12 in 2007, which was very close to a Census Bureau TFR projection of 2.123 children for 2010.[2] Of course, the higher the TFR, the better the financing outcomes for Social Security. As Chart 3 reveals, projections by James Capretta quantify how the gap between Social Security revenue and spending progressively narrows as TFR increases from 2.0 children to 2.6 children.[3]

More broadly, if all of the "low-cost" variables of Chart 2 were realized—a TFR of 2.3 instead of 2.0 children; a slowdown in longevity increases; 1.385 million annual immigrants instead of 1.075 million; slightly lower wage increases, inflation, and unemployment—the result is spectacular. Indeed, the Social Security funding crisis disappears (as "Projection 1" of Chart 1 indicates): although the trust fund, as a percent of annual costs, declines to 205 percent for the years 2051 through 2054, it returns to more than 300 percent in the 2080s, requiring no benefit cuts, higher taxes, or new debt. However, for the same reason cited before, the United States will not achieve this result, either.

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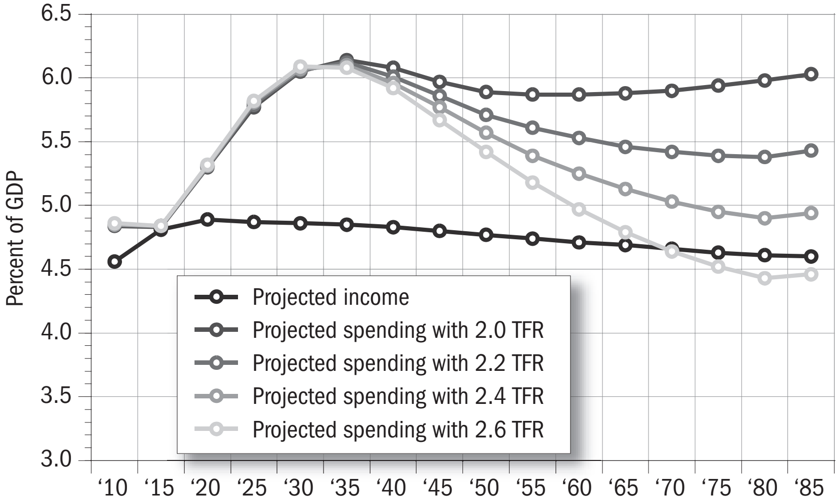
1. *Congressional Record*, 94th Congress, 2nd Session (June 29, 1972): S23320; and (July 31, 1972): S26029.

2. *Statistical Abstract of the United States,* 2003 edition, Table 89.

3. James C. Capretta, "The Demographics of Social Security: Why Entitlement Reform Needs a Fertility Boost," *The Family in America: A Journal of Public Policy* 25.1 (Winter 2011): 54–55.

Chart 3: The Social Security Financing Gap

How Increased Fertility Narrows the Gap



Sources: 2010 Social Security Trustees' Report and calculations, by James C. Capretta, of Social Security spending with of TFR at 2.2, 2.4, and 2.6.

The more interesting question is the degree to which Americans might be able to influence one or more of these variables. Perhaps citizens are not helpless before these great material forces. Of greater interest is the possibility that the Social Security system itself influences these variables, creating incentives that either strengthen or weaken the public pension system as a whole.

Fertility is just such a variable. Specifically, this essay will show that the New Deal architects of Social Security crafted a system that favored a traditional model of the family, which in turn helped to create conditions that spawned the Marriage Boom and Baby Boom of the years between 1944 and 1964. It will then explain how and why the political class turned this remarkably successful system on its head after 1965, generating incentives that discouraged the birth of the very children that were needed to keep the system solvent. Finally, after assessing whether existing reform proposals would counter this systemic problem, the essay will suggest alternatives that could make a difference.

A Family-Friendly System

The New Deal still sparks political passions. Conservatives tend to see it as creating a legacy of big government and dependency. Liberals see the New Deal as perhaps their finest hour. Largely unappreciated today is the explicit social conservatism found in the New Deal.

This political program was, in fact, decidedly pro-family. Some of this emphasis came from the Roman Catholic wing of the old Democratic Party, represented by Father John Ryan of the Catholic University of America. Author of the books, *The Living Wage* (1910) and *Social Reconstruction* (1920), Ryan served on the advisory board of the President's Committee on Economic Security, which crafted the Social Security system. He argued for promotion and defense of the breadwinner/homemaker/child-rich family, as outlined in the 1930 Papal encyclical *Quadragesimo Anno*.

Part of this pro-family influence also came from the New Deal women called "maternalists": Secretary of Labor Frances Perkins; Grace Abbott and Katherine Lenroot at the Children's Bureau; Mary Anderson at the Labor Department's Women's Bureau; Molly Dewson on the Social Security Board; and Eleanor Roosevelt, wife of FDR and niece of Theodore Roosevelt. These women all favored a family wage for fathers sufficient to support a wife and children in dignity; opposed mothers with dependent children working outside the home; favored mandatory training in homemaking for girls; denounced daycare schemes as assaults on childhood; favored mothers' pensions for widows; and repeatedly attacked and thwarted the GOP-proposed Equal Rights Amendment.[4]

These assumptions shaped the whole New Deal domestic program, from the National Industrial Recovery Act (NIRA) to the Works Progress Administration (WPA) to the Social Security Act of 1935. Regarding the latter, Abraham Epstein—a member of the Committee on Economic Security—laid out the new system's guiding assumptions:

> The American Standard assumes a normal family of man, wife, and two or three children, with the father fully able to provide for them out of

4. See Allan Carlson, *The "American Way": Family and Community in the Shaping of the American Identity* (Wilmington, Del.: ISI Books, 2003), Ch. 3.

> his own income. This standard presupposes no supplementary earnings from either the wife or young children.[5]

Testifying before Congress on the proposed Social Security Act, Grace Abbott reported: "The mother's services are worth more in the home than they are in the outside labor market and . . . she should be enabled to stay home and care for the children."[6]

As contemporary feminist historians frequently complain, women gained benefits under the Social Security Act primarily through their ability to conceive and bear children. Title V provided funds for prenatal-, maternal-, and infant-care education. The new Aid to Dependent Children (ADC) program provided pensions to mothers who had lost a male breadwinner.[7] Even Old-Age Insurance, which seemed to be relatively individualistic and gender-neutral on the surface, favored working men. The system covered only industrial workers, overwhelmingly male. Most working women, in fact, were then in jobs exempted from the system: clerical work, sales, teaching, nursing, domestic service, farm labor, and charitable work.

The Social Security Amendments of 1939 strongly reinforced this orientation toward the breadwinner/homemaker family. Specifically, these amendments incorporated the family responsibilities of men into the 1935 system. Molly Dewson, a key architect of this measure, explained the guiding principle: "Men who can afford it always consider it their first duty to provide insurance protection for their wives and children. Survivor benefits extend the same kind of protection to families who need it most and can afford it least."[8] Specifics of the 1939 amendments included introduction of the pay-as-you-go principle of financing. Other changes included:

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5. Abraham Epstein, *Insecurity: A Challenge to America* (New York: Harrison Smith and Robert Haas, 1933), pp. 101–02.

6. Grace Abbott, *From Relief to Social Security* (Chicago: The University of Chicago Press, 1941), p. 211.

7. See Suzanne Mettler, *Dividing Citizens: Gender and Federalism in New Deal Public Policy* (Ithaca: Cornell University Press, 1998), p. 132.

8. Quoted in Mettler, *Dividing Citizens*, p. 100.

- Aged women married for at least five years to eligible men would receive an extra pension equal to 50 percent of their husbands' benefits. Neither work nor prior contributions would be necessary, and divorced women were excluded. This is the so-called "homemakers" pension.

- Widowed mothers with children in the home were moved off of ADC, each receiving instead a monthly survivor's benefit equal to 75 percent of the pension her husband would have received, so long as she earned no more than $15 per month and did not remarry.

- Surviving children received a benefit equal to half that which their father would have received.

The 1939 amendments were a remarkably bipartisan measure: Republicans were as enthusiastic as Democrats. Historians agree that these reforms were overwhelmingly popular, and that they saved the fledging Social Security system from repeal. They grafted onto Social Security the core "family values" of the American people at mid-century: marriage; the family wage; the mother-at-home; a flock of children. Deviations from these norms—divorce, illegitimacy, mothers working outside the home, deliberate childlessness—triggered significant financial disincentives.

This system helped to create what came after. Starting in the late 1930s, both U.S. marriage and fertility rates began climbing again. By the late 1940s, America had entered an extraordinary time of family renewal. The average age of first marriage fell to 22 years for men, and to 20 years for women. By age 40, more than 95 percent of adults had married. Following a war-induced spike in 1946, the divorce rate fell steadily. As noted earlier, the TFR climbed from 2.2 children per woman in 1935 to 3.8 children by 1957, and remained high through 1964. A Social Security system focused on "family protection" combined with a family-friendly income tax and housing programs focused on young married couples to create a remarkably family-centered climate.

Moreover, econometric evidence points to the role of Social Security in this change. The German scholar Berthold Wigger marshals evidence to show that moderate-sized public pensions actually have a positive effect on fertility. Indeed, until 1965, the American system was modest in size and scope. Many American workers remained outside the system. In 1947, the maximum payroll tax was only $30 per year, 1 percent of average income; and in 1965, only $174 per year, about 2 percent of income. As late as 1957, 52 percent of the elderly still reported receiving some support from their children, compared to only 42 percent receiving some support from Social Security. In 1960, two-thirds of widowed women 75 years and older still lived with relatives.[9] As Wigger's calculations show: "median-sized public pensions . . . may stimulate fertility," a conclusion reinforced by the American experience between 1940 and 1965.[10]

The True Social Security Crisis

However, this healthy balance did not last. One possible explanation is that American political leaders—especially Congress and Presidents Lyndon B. Johnson and Richard M. Nixon in the 1960s and early 1970s—lacked the self-discipline to maintain a median-sized public pension system. From 1940 until 1965, Congress had kept increases in pension payments modest, largely in line with the cost-of-living. Then came the Great Society, when money seemed limitless and all things possible. And, as already noted, Congress tossed reason and caution to the wind in 1972, in an open, bipartisan act of pandering to elderly voters.

Another possible explanation is that a combination of ideologies brought the system down. The new feminism of the 1960s looked with disgust at the "breadwinner/homemaker" model enshrined in the Social Security system. They objected to the assumption of conventional gender roles, and particularly to the homemaker's pension, which rewarded women who gave full-time care to their children. The neo-Malthusians, or population-control advocates, also roared back with force in the 1960s, appalled by public policies that favored families with more than one or two children. The Grey Panthers were on the march, too, as elderly

9. Hugh Heclo, "The Political Foundations of Anti-Poverty Policy." Paper presented at the conference, "Poverty and Policy: Retrospect and Prospects," sponsored by the U.S. Department of Health and Human Services, December 6-8, 1984, pp. 27–28.

10. Berthold U. Wigger, "Pay-as-you-go Financed Public Pensions in a Model of Endogenous Growth and Fertility," *Journal of Population Economics* 12 (1999): 625.

Americans claimed that they were the victims of "ageism" and demanded more money and programs.

A third possible explanation is that the Social Security system actually contained the seeds of its own destruction. America received its first warning of this problem back in 1940. The Cassandra in question was Gunnar Myrdal, a Social Democratic economist from Sweden. The venue was the Godkin Lectures at Harvard University. His speech title: "Population: A Problem for Democracy." Myrdal argued that all pay-as-you-go public pension systems rested on a fundamental contradiction. Before the creation of such systems, parents depended on their own children as their ultimate "safety net," their true insurance. If other forms of savings and asset accumulation failed, the adult children would be there to provide financial support, shelter, or care. This created a strong incentive for having children.

However, a public pay-as-you-go (PAYG) system reversed the incentives. Pensions were now provided by the government as a right. Children were still needed to make the system work in the future. However, Social Security represented the socialization of the private insurance value of children. Pension benefits were now tied to work and salary, not family size. Childless workers received the same pensions as workers who had spent much of their income to raise large families. This created a perverse incentive: the rational, income-maximizing individual would now have no children at all. As he (or she) would reason: Let others spend money on raising children who will grow up to be taxed to pay for my retirement. Economists label this the "free rider" problem. Myrdal called this contradiction "the burning core" of the population problem.[11]

Other, decidedly non-socialist, researchers have repeatedly confirmed this "Social Security-fertility hypothesis." Looking at developing countries, B. Entwisle and C. R. Winegarden report: "[Our] results suggest that increased pension expenditures . . . lead to lower fertility levels five or so years later. This lower fertility in turn implies increased pension

11. See Gunnar Myrdal, *Population: A Problem for Democracy* (Cambridge: Harvard University Press, 1940), pp. 197–200.

expenditure."[12] In a study of fifty counties representing about two-thirds of the world's population, economic forecaster John D. Mueller finds that the "net TFR" is strongly and inversely proportional to per-capita social benefits.[13]

Likewise, studying the experience of eighty-one nations, both developed and developing, Charles Hohm and his research team found "that after controlling for relevant developmental effects, the level and scope of a country's social security program is causally and inversely related to fertility levels." Moreover, the reverse hypothesis also proves true: "Reduced fertility levels result in subsequent increases in social security expenditures." The researchers emphasize the "robust" nature of their results. From Australia to Zambia, higher pension benefits result in fewer babies, while fewer babies result in higher benefits, as each system more or less consumes itself.[14]

Economists Isaac Ehrlich and Francis Lui are more blunt:

> Regardless of any potential welfare implications of social security, our analysis shows that a proportional tax, under the defined benefits, PAYG system operating in many countries, will adversely affect fertility, savings, or investment in human capital [that is, in children] . . . . The specter of financial collapse . . . is an inevitable outcome of persistent secular reductions in fertility, labor productivity, and the aging of the population, given the mechanics of the PAYG scheme.[15]

This is the more serious, but rarely acknowledged, Social Security crisis. As Chart 4 illustrates, this process was clearly at work in the United States from 1960 to the early 1980s: with potential children consumed by rising federal outlays for Social Security, as measured as a percent of the Gross

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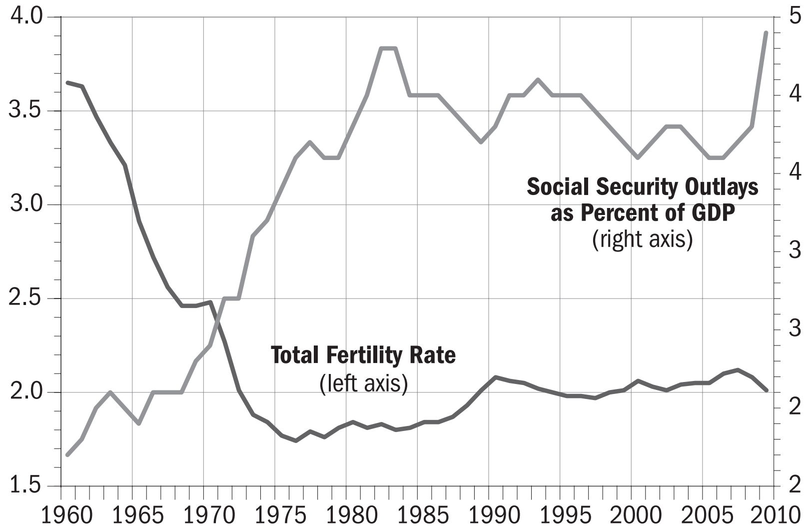
12. B. Entwisle and C. R. Winegarden, "Fertility and Pension Programs in LDCs: A Model of Mutual Reinforcement," *Economic Development and Cultural Change* 32 (1984): 332–32, 348.

13. John D. Mueller, *Redeeming Economics: Rediscovering the Missing Element* (Wilmington, Del.: ISI Books, 2010), pp. 236–37.

14. Charles F. Hohm et al., "A Reappraisal of the Social Security-Fertility Hypothesis: A Bidirectional Approach," *The Social Science Journal* 23 (1986): 163.

15. Isaac Ehrlich and Francis T. Lui, "Social Security, the Family, and Economic Growth," *Economic Inquiry* 36 (July 1998): 404.

Chart 4: The Social Security-Fertility Hypothesis



Source of TFR: Vital Statistics of the United States, 1969, Vol. 1—Natality, National Center for Health Statistics, 1974, Table 1-6; Statistical Abstract of the United States, 1980 edition, Table 86; 2004–05 edition, Table 75; 2010 edition, Table 83, and "Births: Preliminary Data for 2009," National Vital Statistics Reports, Vol. 59, No. 3, December 21, 2010, Table 1.

Source of Social Security Outlays: Author's calculations using data from Budget of the U.S. Government, Fiscal Year 2012, Historical Tables, U.S. Office of Management and Budget, Table 3.1, pp. 49–55, and U.S. Department of Commerce, Bureau of Economic Analysis website, Table 1.1.5. Gross Domestic Product.

Domestic Product (GDP). Note how the fall of the TFR by 50 percent occurred in inverse relationship to a 100 percent increase in the scope of federal outlays for Social Security, precisely as predicted by Myrdal. Moreover, this same time period saw the near disappearance of family-centered solutions to old-age security. For example, the percentage of the elderly receiving aid from their grown children fell from 52.5 percent in 1957 to only 4 percent by 1980. Notice, too, how modest increases in the TFR after 1998 are associated with a modest decline in federal outlays for Social Security.

On top of this apparently innate dilemma of Social Security looms another problem with adverse fertility effects: what some call the

"Generation X Syndrome." A team of Dutch scholars at Tilburg University has shown that a pay-as-you-go pension scheme has a positive fertility effect on the first generation being taxed, possibly due both to the low tax rates involved and the certainty of a new retirement benefit. In contrast, young adults of the early twenty-first century (such as Generation X) already face almost unprecedented overall taxes and—as surveys repeatedly show—express doubt that they will ever gain much of a return from Social Security. In the absence of high taxes, this cynicism toward "the generational contract" might have led these young adults back to a family-centered solution: having more children. But in the real-world context of already high taxes, the actual effect is for them to invest more in private savings, rather than in children. In short, children—living and potential—are still seen primarily as already socialized "public" goods. Better to save than create a baby.[16]

All of these results point to one conclusion: fertility is at least partially a function of public policy. The crisis of Social Security that the United States faces as the Baby Boomers retire is, in part, the result of perverse incentives built into the very system. This also suggests that fertility is not an endogenous variable but one that policymakers can affect. If past policy actions drove it down, perhaps future public-policy actions might allow fertility to rise again.

Research by the CBO confirms this. In its 1999 report, "Uncertainty in Social Security's Long-Term Finances," the CBO uses a far wider range of possible future fertility rates, varying from a minimum TFR of 0.5 to a maximum of 3.5 in any given year, and a low of 1.0 and a high of 3.0 over time. Although more recent CBO reports appear less optimistic about the possibility of significant deviations in current fertility patterns, in 1999 the CBO reasoned:

> Another way to view the uncertainty about fertility is to look at other factors that may have caused fluctuations over time. The Depression, World War II, the great postwar economic expansion, the discovery of cheap and effective birth control—all of those events had unpredictable

16. Bas van Groezen et al., "Family Size, Looming Demographic Changes and the Efficiency of Social Security Reform." Paper prepared at the Department of Economics, Tilburg University, March 9, 2000, pp. 12–13, <http://arno.uvt.nl/show.cgi?fid=4051>.

> and dramatic effects on the fertility rate. By predicting uncertainty that is consistent with past variation, CBO is implicitly assuming that such events could happen again.[17]

This strikes me as both reasonable, and hopeful.

Family and Fertility Tests

How, then, should a pro-family advocate judge rival reform plans for Social Security? Four criteria are indispensable to weighing the pros and cons of any Social Security reform plan:

1. The anti-natalist incentives of a pay-as-you-go pension system weaken and discourage families and the birth of children. *Does the proposal reduce or reverse these incentives?*

2. Even in 2011, some pro-family components remain in the Social Security system, including the homemakers' pension (one of the few remaining public recognitions given to the work of a parent at home) and survivors' insurance. *Does the proposed reform protect or enhance these components?*

3. The broad effect of social insurance has been to substitute state programs for natural family bonds. *Does the proposal do anything to strengthen intergenerational bonds within families?*

4. Funding current reforms with new debt will only add to the already heavy future tax burden of the young, and enhance the state-induced negative effects on fertility. *Does the proposal avoid massive new public debt?*

These principles are especially helpful in evaluating the recommendations advanced by President Obama's debt commission, which released its report last December. Representing the voice of the political establishment, the commission largely defended the Social Security system as it is, but called for refinements including increasing the retirement age, increasing the maximum wage base subject to the payroll tax, making the

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17. *Uncertainty in Social Security's Long-Term Finances,* Chapter 6, p. 6.

retirement-benefit formula more progressive, and adopting a "chained" Consumer Price Index to calculate benefit increases.[18] The commission's recommendations would preserve the homemaker and survivors' benefits and avoid new debt. However, they would leave in place existing incentives against the birth of children and would do nothing to rebind the generations of a family. The true crisis would remain.

What about the creation of personal-retirement accounts as set forth by Peter Ferrara, pushed by the conservative think tanks, and even deemed worthy of discussion by President Obama's debt commission?[19] Under one popular scenario, younger workers could divert up to two-thirds of their individual payroll-tax payment into a mutual-fund-like account. Alas, while these accounts may have some merit, they contain inherent difficulties. Relative to the fertility issue, John Mueller is dead right: "Compulsory individual financial accounts . . . would worsen the demographic problem." He quotes Martin Feldstein to the effect that the whole plan rests on forcing "reduced consumption" on young adults while also pushing them toward the accumulation of a "dedicated capital stock."[20]

Translated from "economese," this means less money for young adults to invest in children; and—as a probable result—fewer children. Robert Stein, an economist who served in the George W. Bush administration at the Treasury Department, makes a similar argument: "Requiring workers to save for retirement through private financial instruments would also crowd out the traditional motive to raise kids."[21] Indeed, this is precisely what happened in Chile, which, after setting up a personal-account system in 1981, saw her TFR decline from 2.7 to 1.9 children. Moreover, since personal accounts would also be tied to a reduction in benefits, the homemaker pension would shrink, as would survivors' insurance. On a

18. "The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform," December 2010, pp. 48–55, <http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf>.

19. Ibid., p. 53. For a defense of personal accounts, see Peter Ferrara, *America's Ticking Bankruptcy Bomb: How the Looming Debt Crisis Threatens the American Dream—and How We Can Turn the Tide Before It's Too Late* (New York: Broadside/Harper Collins, 2011), pp. 29–71.

20. Mueller, *Redeeming Economics*, p. 299.

21. Robert Stein, "Taxes and the Family," *National Affairs*, Winter 2010, p. 40.

more positive note, if funds in personal accounts were made fully transferable to heirs at the insured's time of death, as Ferrara recommends, they could serve as a kind of patrimony and help rebind the generations; however, if not fully transferable, there would be no gain. Finally, most personal-account plans conservatively assume borrowing up to $2 trillion to finance the transition, a debt that would fall on young adults and further discourage them from family formation and children.

For these and other reasons, Mueller has since 1995 proposed an alternative: Allow young workers to cut their payroll taxes now, in exchange for a reduced level of future benefits. Relative to fertility, this would let young adults keep more of what they earn, which could be invested in children.[22] However, his plan does not take into account the Generation X Syndrome, and the probability that the money retained would—if not immediately consumed—simply be put into another form of savings, rather than invested in children. Moreover, the Mueller plan would reduce the homemaker and survivors' benefits, as well. On the plus side, it apparently would not require direct new debt, merely the early spending down of the existing trust-fund surplus.

Another provocative idea comes from Phillip Longman of the New American Foundation. Writing in the *Washington Post*, he proposes giving payroll-tax relief to married parents who successfully rear their children:

> For example, have one child, and the payroll tax you pay (and that your employer normally pays) drops by one third. A second child would be worth a two-thirds reduction in payroll taxes. Have three or more children and you wouldn't have any payroll taxes again until your youngest child turned 18.[23]

Parents would still receive full benefits on retirement, provided that all their children had graduated from high school. However, non-parents would face a reduction in benefits to pay for the change, "at least until birthrates rose sufficiently to increase the system's tax base and avoid

22. Mueller, *Redeeming Economics*, p. 301.

23. Phillip Longman, "Give More Credit to Prolific Parents," *The Washington Post*, January 9, 2005, p. B7.

rapid population aging." Well, this approach would probably solve the system's fertility problem: babies would become a very valuable tax shelter. It would clearly preserve, and even enhance, the homemaker and survivors' benefits, for those with at least three children. And it seems to avoid new debt. However, its effects on family intergenerational bonds are unclear.

Recovering the Original Social Security Concept

A combination of the Mueller and Longman approaches may offer the most promise for returning Social Security to its original size, a size that could deliver, perhaps once again, its social and economic magic. From a libertarian perspective, only a modification of these two plans could reduce the overall scope of the welfare state broadly defined, so that natural family bonds might recover. Specifically, for Americans 40 years of age and younger, policymakers could link a 20 percent reduction in future OASDI benefits (achieved by fixing future benefit increases halfway between the CPI and the wage index) to a series of credits:

- Taxpayers should be granted a credit of 25 percent against their total FICA tax (employer's and employee's portions) for each child born or adopted, a credit to be continued until the child reaches age thirteen. This would mean that a family with four children, ages twelve and under, would pay no FICA tax in that year (but would still receive all due employment credit).

- Second, taxpayers should also be granted a 25 percent credit against their total FICA tax for each elderly parent or grandparent residing in the taxpayer's home.

- Third, for each child born, a mother should receive three years (or 12 quarters) of employment credits (calculated at the median fulltime income) toward her future Social Security pension.

- Fourth, a person, even if more than 40 years of age, should also receive one year's employment credit toward Social Security, at the same median income level, if he (or she) served as the primary care giver for an elderly relative residing in his (or her) home.

This approach would also create a strong incentive toward bearing and rearing children. It would strengthen the pension claims of homemakers and parents-at-home, by preserving their net value and making them more direct and visible. It would encourage stronger intergenerational bonds within extended families. It calls for no new debt. This plan also builds on recent econometric findings, namely that state "pensions and child allowances [or in the American system, tax credits] are like Siamese twins: you should see neither of them or both together, but never one without the other."[24] If lost revenue from the credits exceeds benefit reductions, policymakers should either raise the wage base subject to the payroll tax or widen the definition of income (or "broadening the base" in income-tax terms) subject to the payroll tax to include investment income as well.

Moreover, several refinements could redeem the idea of personal-retirement accounts, which represent the real innovation with growing support on the table this political season. The key is to insist on linking any benefit reduction to a substantial new child benefit. As econometric analysis shows, this is the only way to prevent the transition to personal accounts from aggravating the fertility problem: "Downsizing the PAYG-scheme can bring about an . . . improvement [only] if it is combined with the introduction of a [new] child allowance scheme."[25] In the United States, this benefit could be delivered either through a new child credit against payroll taxes or through a substantive increase in the existing child-tax credit in the income tax: say, to $2,000 per child, tied to an elimination of existing income limits on eligibility and extended to dependent children through age 18.

This would blunt, even reverse, the system's current incentives against children. Any reduction in the homemaker benefit would be compensated for by this favorable tax recognition of dependent children, particularly for larger families. If the credit is against the income tax, how could the U.S. Treasury cover the lost revenue? Perhaps a "family support" surtax of 1 to 2 percent on single incomes of more than $75,000 and married-

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24. Van Groezen, "Family Size, Looming Demographic Changes and the Efficiency of Social Security Reform," p. 24.

25. Ibid., p. 7.

household incomes of more than $150,000 (some of which would come back to the relatively well off with children through the expanded child-tax credit). Only singles and married couples both well off and childless would pay significantly more tax under this approach. These Americans can afford it, and—as "free riders" relative to children—they owe it to their nation.

Some may be put off by my initial description of the Social Security system of 1939: its commitment to a very traditional family order; its assumption of rigid gender roles. Even so, this vision of family life gave moral coherence and popular support to the program of social insurance. It was more than a mere insurance plan; it embodied the values and virtues of the American nation. And it helped produce an unprecedented flowering of family life in mid-twentieth-century America. In this new century, any vision of Social Security—including one resting on personal accounts—must build on a similar moral grounding. The details need not be the same. However, only a commitment to children, to the married-parent family as the social ideal, and to a rebinding of the generations will be up to the task.

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