OUR FISCAL CRISIS: WE CANNOT TAX, SPEND, AND BORROW ENOUGH TO SUBSTITUTE FOR MARRIAGE

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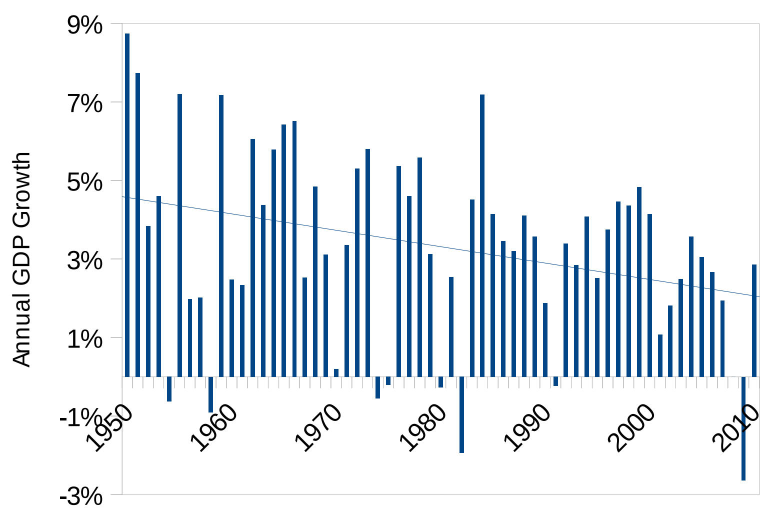
Three facts shape our on-going fiscal crisis: Government revenues come from the taxation of our economy. Our economic growth is and will continue to be a fraction of that of the pre-1960's era (cf. Chart 1) because of the breakdown in marriage. All the while, more citizens are pushed into dependency on this government, again because of marriage breakdown.

Chart 1: Slowdown in Real GDP Growth

Bureau of Economic Analysis NIPA



This slowdown in economic growth coupled with the increased numbers of dependent citizens makes closing the deficit impossible for President Obama or anyone else who uses the present welfare state as the economic model to be sustained. It cannot

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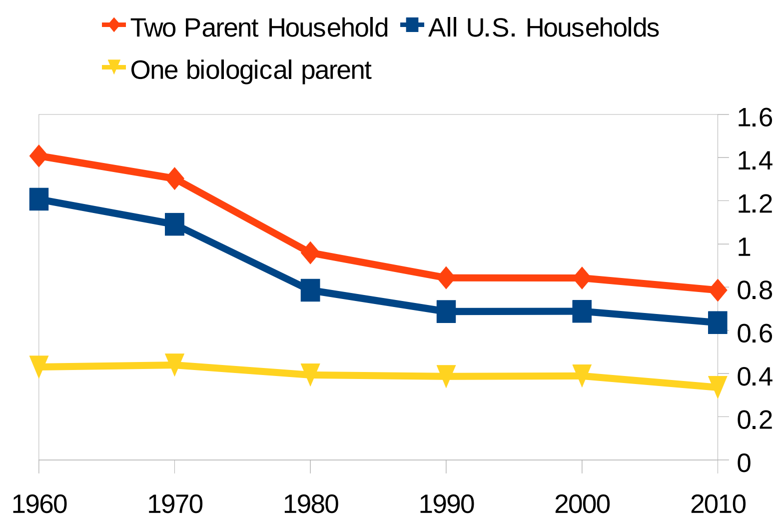
be.[1,2] This reality arises from two facts: 1) We have proportionately fewer children, as shown in Chart 2. 2) Up to 20 percent of these children are unequipped to compete in the modern economy because of a lack of essential skills formed within the intact married family.[3,4]

Chart 2: Number of Children per Household

Derived from U.S. Census Current Population Surveys



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[1]Population dynamics alone yields a three percent increase per year in demand for entitlements as the baby boom generation comes into retirement over the next decade, cf. Footnote 20. Footnote 11 describes how entitlement spending equals federal revenue now. The growth trend shown in Chart 1 combines with these foregoing two facts to force a macro-economic widening of entitlement demand to revenue supply. This is to say nothing about demand elasticity of price, bureaucratic diseconomies of scale, increased longevity, or marginal demand increases for these entitlements, which we shall address in a later paper.

2 Sustained economic growth is of great social importance in its own right. Consider the difference between societies, one growing at four percent, the other growing at two percent per year, both in real terms. These numbers are at the attainable extremes of the two American societies we are comparing: one set up by the children of the Great Depression and inherited by the baby boom generation, and our new economy. If these societies were to start at the same level of affluence, over the course of a generation (~30 years) the earlier society would become more than two-thirds more affluent, in real terms, than the latter. Over the course of an individual's working life (~45 years) the earlier society would grow to become more than twice as affluent than the latter. This means that within this example (potential) millionaires would be replaced by $500,000-aires, etc. The standard on growth economics opens with just these considerations: R. Barrow, X. Sala-i-Martin, Economic Growth, MIT Press, 1999.

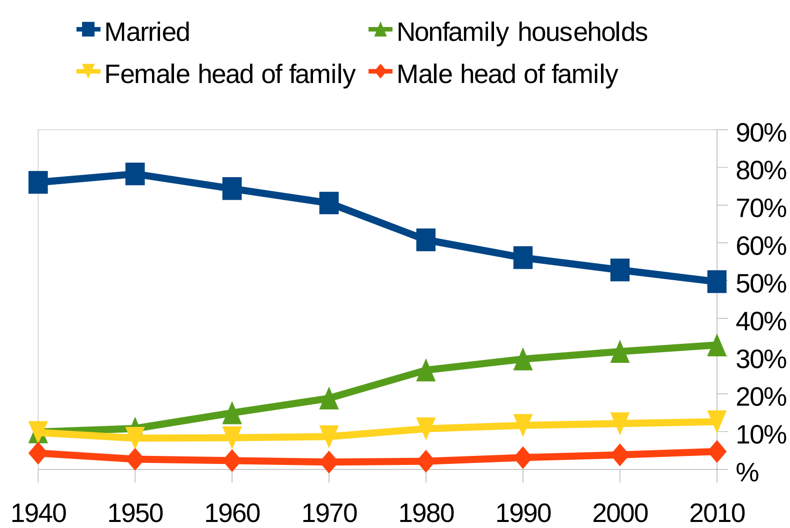
3 G. Becker, Nobel Laureate in Economics on Human Capital and the Family, interview in R. Stout, Demographic Winter, Ignatius Press, 2008.

4 Of critical importance is the 10 IQ point advantage--which is stable through school years and beyond-formed in early childhood in a stable, caring family. D. Armor, *Maximizing Intelligence*, Transaction Publishers, 2003. This comprises a National Longitudinal Survey of Youth analysis.

Families are in decline. 55 percent of U.S. children entering adulthood in 2008 had experienced the breakup of their family of origin.[5] Also we have fewer men who experience the "marriage premium." This deprives the economy of the remarkably large *effect of marriage*,[6] a 0.9 percent income increase per year for married men, which, to put it in context, is nearly as large as the income increase for years experience on-the-job [1.2 percent per year, a human capital effect].[7]

Chart 3: Decomposition of American Households

Derived from U.S. Census Current Population Surveys



The decline in the growth rate in our economy is explained by these facts about the family.[8]

Chart 4 illustrates the degree to which married families are the essential contributors to wealth generation. Their income and savings immediately translate into revenue for government and capital for the economy.[9] Thus we can now see that the

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[5] Rejection Ratio: marri.frc.org/rejection-ratio. This comprises analysis of the American Community Survey, 2008.

[6] That is, we control for the fact that some especially productive men may self-select preferentially into marriage.

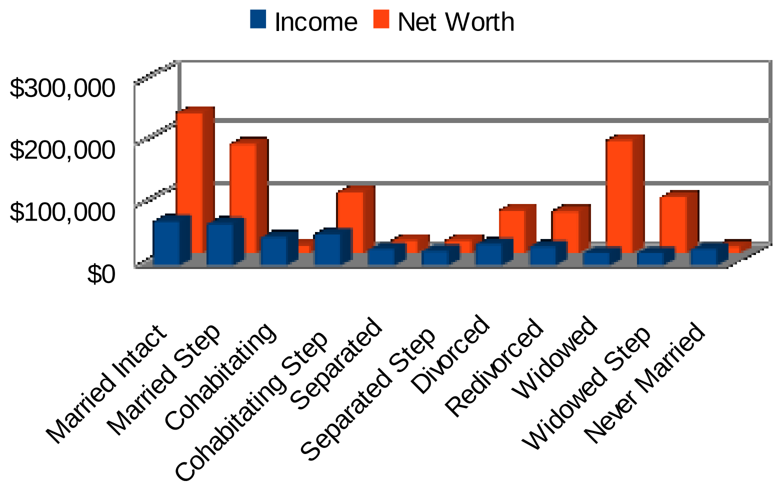
[7] G. Akerlof, Nobel Laureate in Economics, "Men Without Children," The Economic Journal, 108 (1998), 287-309.

[8] For an overview of the research literature on the impact of changed family structures on the economy see P. Fagan, H. Potrykus & A. Kidd, "Marriage and Economic Well-Being: The Economy of the Family Rises or Falls with Marriage," MARRI, May 2011.

[9] Further MARRI analysis on the Fed. Reserve Board Survey of Consumer Finance, 2007 (available upon request) shows these stark differences remain when controlling for both age and education level.

transition of our country since the 1960's from a nation of intact families to a nation with a majority of broken families[10] produces a much-weakened economy.
The families of this new economy cannot financially support our needs the way they once could (see Chart 4). Hence, government has had to go overseas more to find purchasers

Chart 4: Median Income and Net Worth by Family Type
Derived from Fed. Reserve Board Survey of Consumer Finance 2007



for its debts, debts that arise from continued high expectations by both citizens and government.[11] Our $1.5 trillion deficit–$1.5 trillion is *10 percent* of our economy–was only one-third financed by American households; another third was financed by foreign lenders such as Saudi Arabia, China, UK and Japan; and the final third was covered by the Federal Reserve Board purchase of bonds, it simultaneously "adjusting its balance sheet."[12] Many are concerned with the increased market and inflation risk associated with this new reality.[13, 14]

Increased inflation (risk) combined with low interest rates punish savers (mainly intact families).[15, 16] This does not build a strong society nor a strong economy. Because we need a society of savers and investors, we need a society of stable, married families (Chart 4). Furthermore, married families who worship together further lower the risks of

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10 *The Rejection Ratio*, op. cit.

11 $2 trillion of the federal budget---equaling all federal revenue---currently is spent on elderly care, pensions and welfare. This is why we have a $1.5 trillion deficit for spending on national defense, discretionary programs, interest payments on the debt, etc.

12 U.S. Transactions with Foreigners in Long-Term Securities; Quantitative Easing 2

13 B. Bernanke, testimony to Congress, March 2011, on the first of these risks.

14 W. Gross, Manager of the world's largest Mutual Fund, "Skunked," PIMCO Investment Outlook, April, 2011.

15 M. King, Governor, Bank of England, January 2011 speech. Dr. King also recognizes acutely the inflation effect.

16 C. Schwab, "Enough with the Low Interest Rates!" *The Wall Street Journal*, October 2, 2010.

economic instabilities both for their own families and for the nation at large, especially during serious downturns.[17]

The key investors in both physical and human capital throughout America's history have been stable, married families. As shown in Chart 1, from 1980 to 2010, there was a decrease in annual GDP growth. During these decades that average growth was roughly three percent. From 1980 to 2010, population growth contributed more than one percent to this three percent growth (cf. Chart 2).[18] However, due to the post-1960s/1970s massive rise in contraception and abortion,[19] the number of children in the average American household fell by 50 percent (cf. Chart 2). This now-embedded population trend will give us barely one-half of one percent of GDP growth contrasted to the prior one percent.[20、21] In other words, children from the relatively larger families of the 1960s became the workers of the 1980s and on and contributed to growth at the one percent level. However, their children [of the smaller 1990s families] will yield the smaller growth of one half of one percent from the 2010s on.

For human capital the story is similar. Human capital contributed 0.5 percent to 1.5 percent to GDP growth each year in previous decades, up to roughly 2008.[22、23] With the retirement of the baby boom and their replacement with neglected[24] and undercapitalized [human capital][25] generations most of this growth component *shall be wiped out*.[26]

With $2 million as the median lifetime earnings of the U.S. household,[27] the long run effects of the sexual revolution of the 1960s and 1970s [~$100 trillion: $2 million x 50 million heads-of-households lost] dwarf any other factor in the macro-economy.

Government actions in the last five decades have worked to construct a different society, one aspect of which is this new economy. Government's actions that have encouraged the formation of non-married and less child-centered families:

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[17] MARRI analyses on the likelihood of unemployment (available upon request); G. Elder, R. Conger, *Children of the Land*, University of Chicago Press, 2000.

[18] R. Barrow, X. Sala-i-Martin, *op. cit.*

[19] F. Fukuyama, *The Great Disruption*. Simon & Schuster, 1999.

[20] MARRI census data projections following U.S. Census projections using historical immigration and death rates; no business-cycle adjustments. Cf. Chart 2 above.

[21] Keynes, in *The General Theory* notes correctly how population growth helps abbreviate recessions as producers may increase investment for production, and hiring, in anticipation of consumption growth. This argument may also be applied to decreasing populations, *mutatis mutandis*.

[22] 2008 = 1953 + 55, the year of peak productivity of the baby boom generation. H. Dent, *The Great Depression Ahead*, Simon & Schuster, 2008.

[23] From analysis of so-called "growth accounting," several growth models (e. g. Solow and Ramsey, as used by the CBO), and regressions on growth factors; cf. R. Barro, X. Sala-i-Martin *op. cit.* See H. Potrykus, P. Fagan "Human Capital Generation," published by the European Parliament and available on the world-wide web for a gentle introduction to these and other growth matters.

[24] D. Armor, *op. cit.*

[25] G. Becker, *op. cit.*

[26] MARRI estimate obtained by retiring the substantial wave of advanced baby-boom human capital and replacing it with new-worker human capital, cf. Footnote 22.

[27] J. Scholz, A. Seshadri "Children & Household Wealth," Michigan Retirement Research Center Working Paper 2007-158. This is a Health \& Retirement Study analysis. Our adaptation is available upon request.

1. Family planning policies have undermined fertility rates and simultaneously discouraged marriage and encouraged out-of-wedlock births. Among its main target group, the poor, marriage has virtually disappeared, and been replaced with serial cohabitation.[28]

2. Through the introduction of no-fault divorce, marriage law changed from protecting the unity and stability of marriage to empowering the partner that wanted to break it while simultaneously disempowering the partner who wanted to keep the marriage intact.

3. The Supreme Court in *Eisenstadt v. Baird* (1972) massively undermined married family as the American norm [see Chart 3] by inventing a political right to sexual intercourse outside of marriage for single adults. This contributed massively to the ensuing demographic and human capital disaster, especially when coupled with its *Roe v. Wade* (1973) decision. By misshaping the American family through a fundamental undermining of family law, the Supreme Court constructed the legal, social, and moral framework that has produced our new economy.

4. Sex education in public schools changed from forming youth to confine the act of sexual intercourse to the institution of marriage to propounding a very different sexual regime, one in accord with the Supreme Court's *Eisenstadt v. Baird* decision: teaching teenagers how to have sexual intercourse while minimizing the act's probability of pregnancy.

Because larger families are a greater contribution to the economy than smaller families, U.S. family planning policies have undermined the U.S. economy. The sensible economic policy is to grow intact, stable married families instead of favoring sexual unions that are not child-centered.

1. A sane government would work to reverse all laws, policies and programs that undermine fertile marriage such as no fault-divorce, abortion, education formation of high-school students in extra-marital sexual intercourse, and family planning services that have resulted in a massive increase in single-parent families, and the loss of well over 50 million workers.[29]

2. Tax policies should support rather than penalize marriage and family formation.

The long-range solution to our economic difficulties is to grow intact married families rather than growing government.

[28] A. Cherlin, “The Deinstitutionalization of Marriage,” *Journal of Marriage and Family*, 66 (2004), 848-861.

[29] This may be estimated directly from Chart 2, center line, which quantitatively illustrates the decline of the American child.