
Demographics & Depression

David P. Goldman

Three generations of economists immersed themselves in study of the Great Depression, determined to prevent a recurrence of the awful events of the 1930s. And as our current financial crisis began to unfold in 2008, policymakers did everything that those economists prescribed. Following John Maynard Keynes, President Bush and President Obama each offered a fiscal stimulus. The Federal Reserve maintained confidence in the financial system, increased the money supply, and lowered interest rates. The major industrial nations worked together, rather than at cross purposes as they had in the early 1930s.

In other words, the government tried to do everything right, but everything continues to go wrong. We labored hard and traveled long to avoid a new depression, but one seems to have found us, nonetheless.

So is this something outside the lesson book of the Great Depression? Most officials and economists argue that, until home prices stabilize, necrosis will continue to spread through the assets of the financial system, and consumers will continue to restrict spending. The sources of the present crisis reach into the capillary system of the economy: the most basic decisions and requirements of American households. All the apparatus of financial engineering is helpless beside the simple issue of household decisions about shelter. We are in the most democratic of economic crises, and it stems directly from the character of our people.

Part of the problem in seeing this may be that we are transfixed by the dense technicalities of credit flow, the new varieties of toxic assets, and the endless

iterations of financial restructuring. Sometimes it helps to look at the world with a kind of simplicity. Think of it this way: Credit markets derive from the cycle of human life. Young people need to borrow capital to start families and businesses; old people need to earn income on the capital they have saved. We invest our retirement savings in the formation of new households. All the armamentarium of modern capital markets boils down to investing in a new generation so that they will provide for us when we are old.

To understand the bleeding in the housing market, then, we need to examine the population of prospective homebuyers whose millions of individual decisions determine whether the economy will recover. Families with children are the fulcrum of the housing market. Because single-parent families tend to be poor, the buying power is concentrated in two-parent families with children.

Now, consider this fact: America's population has risen from 200 million to 300 million since 1970, while the total number of two-parent families with children is the same today as it was when Richard Nixon took office, at 25 million. In 1973, the United States had 36 million housing units with three or more bedrooms, not many more than the number of two-parent families with children—which means that the supply of family homes was roughly in line with the number of families. By 2005, the number of housing units with three or more bedrooms had doubled to 72 million, though America had the same number of two-parent families with children.

The number of two-parent families with children, the kind of household that requires and can afford a

DAVID P. GOLDMAN is associate editor of *FIRST THINGS*.

large home, has remained essentially stagnant since 1963, according to the Census Bureau. Between 1963 and 2005, to be sure, the total number of what the Census Bureau categorizes as families grew from 47 million to 77 million. But most of the increase is due to families without children, including what are sometimes rather strangely called “one-person families.”

In place of traditional two-parent families with children, America has seen enormous growth in one-parent families and childless families. The number of one-parent families with children has tripled. Dependent children formed half the U.S. population in 1960, and they add up to only 30 percent today. The dependent elderly doubled as a proportion of the population, from 15 percent in 1960 to 30 percent today.

If capital markets derive from the cycle of human life, what happens if the cycle goes wrong? Investors may be *unreasonably* panicked about the future, and governments can allay this panic by guaranteeing bank deposits, increasing incentives to invest, and so forth. But something different is in play when investors are *reasonably* panicked. What if there really is something wrong with our future—if the next generation fails to appear in sufficient numbers? The answer is that we get poorer.

The declining demographics of the traditional American family raise a dismal possibility: Perhaps the world is poorer now because the present generation did not bother to rear a new generation. All else is bookkeeping and ultimately trivial. This unwelcome and unprecedented change underlies the present global economic crisis. We are grayer, and less fecund, and as a result we are poorer, and will get poorer still—no matter what economic policies we put in place.

We could put this another way: America’s housing market collapsed because conservatives lost the culture wars even back while they were prevailing in electoral politics. During the past half century America has changed from a nation in which most households had two parents with young children. We are now a *mélange* of alternative arrangements in which the nuclear family is merely a niche phenomenon. By 2025, single-person households may outnumber families with children.

The collapse of home prices and the knock-on effects on the banking system stem from the shrinking count of families that require houses. It is no accident that the housing market—the economic sector most sensitive to demographics—was the epicenter of the economic crisis. In fact, demographers have been predicting a housing crash for years due to the demographics of diminishing demand. Wall Street and

Washington merely succeeded in prolonging the housing bubble for a few additional years. The adverse demographics arising from cultural decay, though, portend far graver consequences for the funding of health and retirement systems.

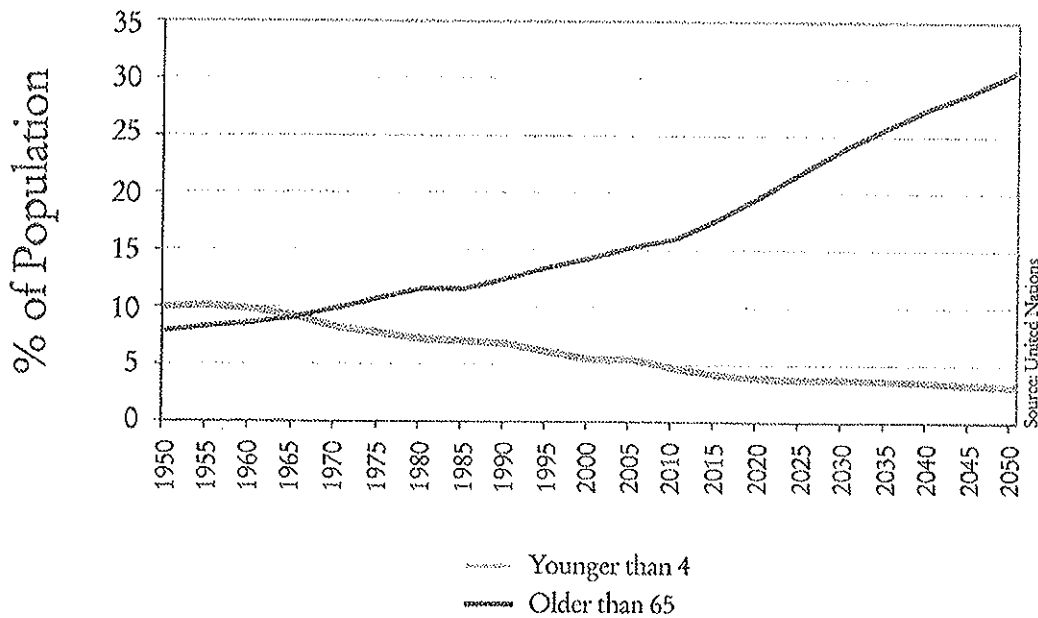
Conservatives have indulged in self-congratulation over the quarter-century run of growth that began in 1984 with the Reagan administration’s tax reforms. A prosperity that fails to rear a new generation in sufficient number is hollow, as we have learned to our detriment during the past year. Compared to Japan and most European countries, which face demographic catastrophe, America’s position seems relatively strong, but that strength is only postponing the reckoning by keeping the world’s capital flowing into the U.S. mortgage market right up until the crash at the end of 2007.

As long as conservative leaders delivered economic growth, family issues were relegated to Sunday rhetoric. Of course, conservative thinkers never actually proposed to measure the movement’s success solely in units of gross domestic product, or square feet per home, or cubic displacement of the average automobile engine. But delivering consumer goods was what conservatives seemed to do well, and they rode the momentum of the Reagan boom.

Until now. Our children are our wealth. Too few of them are seated around America’s common table, and it is their absence that makes us poor. Not only the absolute count of children, to be sure, but also the shrinking proportion of children raised with the moral material advantages of two-parent families diminishes our prospects. The capital markets have reduced the value of homeowners’ equity by \$8 trillion and of stocks by \$7 trillion. Households with a provider aged 45 to 54 have lost half their net worth between 2004 and 2009, according to Dean Baker of the Center for Economic and Policy Research. There are ways to ameliorate the financial crisis, but none of them will replace the lives that should have been part of America and now are missed.

This suggests that nothing economic policy can do will entirely reverse the great wave of wealth destruction. President Obama made *hope* the watchword of his campaign, but there is less for which to hope, largely because of the economic impact of the lifestyle choices favored by the same young people who were so enthusiastic for Obama. The Reagan reforms created new markets and financing techniques and put enormous amounts of leverage at the disposal of businesses and households. The 1980s saw the creation of a mortgage-backed securities market that turned the American home into a ready source of

Population by Age in Advanced Nations



capital, the emergence of a high-yield bond market that allowed new companies to issue debt, and the expansion of private equity. These financing techniques contributed mightily to the great expansion of 1984–2008, and they were the same instruments that would wreak ruin on the financial system. During the 1980s the baby boomers were in their twenties and thirties, when families are supposed to take on debt; twenty years later, the baby boomers were in their fifties and sixties, when families are supposed to save for retirement. The elixir of youth turned toxic for the aging.

Unless we restore the traditional family to a central position in American life, we cannot expect to return to the kind of wealth accumulation that characterized the 1980s and 1990s. Theoretically, we might recruit immigrants to replace the children we did not rear, or we might invest capital overseas with the children of other countries. From the standpoint of economic policy, neither of those possibilities can be dismissed. But the contributions of immigration or capital export will be marginal at best compared to the central issue of whether the demographics of America reverts to health.

Life is sacred for its own sake. It is not an instrument to provide us with fatter IRAs or better real-estate values. But it is fair to point out that wealth depends ultimately on the natural order of human life.

Failing to rear a new generation in sufficient numbers to replace the present one violates that order, and it has consequences for wealth, among many other things. Americans who rejected the mild yoke of family responsibility in pursuit of atavistic enjoyment will find at last that this is not to be theirs, either.

It will be painful for conservatives to admit that things were not well with America under the Republican watch, at least not at the family level. From 1954 to 1970, for example, half or more of households contained two parents and one or more children under the age of eighteen. In fact as well as in popular culture, the two-parent nuclear family formed the normative American household. By 1981, when Ronald Reagan took office, two-parent households had fallen to just over two-fifths of the total. Today, less than a third of American households constitute a two-parent nuclear family with children.

Housing prices are collapsing in part because single-person households are replacing families with children. The Virginia Tech economist Arthur C. Nelson has noted that households with children would fall from half to a quarter of all households by 2025. The demand of Americans will then be urban apartments for empty nesters. Demand for large-lot single family homes, Nelson calculated, will slump from 56 million today to 34 million in 2025—a reduction of 40 percent.

There never will be a housing price recovery in many parts of the country. Huge tracts will become uninhabited except by vandals and rodents.

All of these trends were evident for years, and duly noted by housing economists. Why did it take until 2007 for home prices to collapse? If America were a closed economy, the housing market would have crashed years ago. The paradox is that the rest of the industrial world, and much of the developing world, are aging faster than the United States.

In the industrial world, there are more than 400 million people in their peak savings years, 40 to 64 years of age, and the number is growing. There are fewer than 350 million young earners in the 19-to-40-year bracket, and their number is shrinking. If savers in Japan can't find enough young people to lend to, they will lend to the young people of other countries. Japan's median age will rise above 60 by mid-century, and Europe's will rise to the mid-50s.

America is slightly better off. Countries with aging and shrinking populations must export and invest the proceeds. Japan's households have hoarded \$14 trillion in savings, which they will spend on geriatric care provided by Indonesian and Filipino nurses, as the country's population falls to just 90 million in 2050 from 127 million today.

The graying of the industrial world creates an inexhaustible supply of savings and demand for assets in which to invest them—which is to say, for young people able to borrow and pay loans with interest. The tragedy is that most of the world's young people live in countries without capital markets, enforcement of property rights, or reliable governments. Japanese investors will not buy mortgages from Africa or Latin America, or even China. A rich Chinese won't lend money to a poor Chinese unless, of course, the poor Chinese first moves to the United States.

Until recently, that left the United States the main destination for the aging savers of the industrial world. America became the magnet for savings accumulated by aging Europeans and Japanese. To this must be added the rainy-day savings of the Chinese government, whose desire to accumulate large amounts of foreign-exchange reserves is more than justified in retrospect by the present crisis.

America has roughly 120 million adults in the 19-to-44 age bracket, the prime borrowing years. That is not a large number against the 420 million prospective savers in the aging developed world as a whole. There simply aren't enough young Americans to absorb the savings of the rest of the world. In demographic terms, America is only the leper with the most fingers.

The rest of the world lent the United States vast sums, rising to almost \$1 trillion in 2007. As the rest of the world thrust its savings on the United States, interest rates fell and home prices rose. To feed the inexhaustible demand for American assets, Wall Street connived with the ratings agencies to turn the sow's ear of subprime mortgages into silk purses, in the form of supposedly default-proof securities with high credit ratings. Americans thought themselves charmed and came to expect indefinitely continuing rates of 10 percent annual appreciation of home prices (and correspondingly higher returns to homeowners with a great deal of leverage).

The baby boomers evidently concluded that one day they all would sell their houses to each other at exorbitant prices and retire on the proceeds. The national household savings rate fell to zero by 2007, as Americans came to believe that capital gains on residential real estate would substitute for savings.

After a \$15 trillion reduction in asset values, Americans are now saving as much as they can. Of course, if everyone saves and no one spends, the economy shuts down, which is precisely what is happening. The trouble is not that aging baby boomers need to save. The problem is that the families with children who need to spend never were formed in sufficient numbers to sustain growth.

In emphasizing the demographics, I do not mean to give Wall Street a free pass for prolonging the bubble. Without financial engineering, the crisis would have come sooner and in a milder form. But we would have been just as poor in consequence. The origin of the crisis is demographic, and its solution can only be demographic.

America needs to find productive young people to whom to lend. The world abounds in young people, of course, but not young people who can productively use capital and are thus good credit risks. The trouble is to locate young people who are reared to the skill sets, work ethic, and social values required for a modern economy.

In theory, it is possible to match American capital to the requirements of young people in venues capable of great productivity growth. East Asia, for example, has almost 500 million people in the 19-to-40-year-old bracket, 50 percent more than that of the entire industrial world. The prospect of raising the productivity of Chinese, Indians, and other Asians opens up an entirely different horizon for the American economy. In theory, the opportunities for investment in Asia are limitless, but political trust, capital markets, regulatory institutions, and other preconditions for such investment have been inadequate. For aging Americans to

trust their savings to young Asians, a generation's worth of institutional reforms would be required.

It is also possible to improve America's demographic profile through immigration, as Reuven Brenner of McGill University has proposed. Some years ago Cardinal Baffi of Bologna suggested that Europe seek Catholic immigrants from Latin America. In a small way, something like this is happening. Europe's alternative is to accept more immigrants from the Middle East and Africa, with the attendant risks of cultural hollowing out and eventual Islamicization. America's problem is more difficult, for what America requires are highly skilled immigrants.

Even so, efforts to export capital and import workers will at best mitigate America's economic problems in a small way. We are going to be poorer for a generation and perhaps longer. We will drive smaller cars and live in smaller homes, vacation in cabins by the lake rather than at Disney World, and send our children to public universities rather than private liberal-arts colleges. The baby boomers on average will work five or ten years longer before retiring on less income than they had planned, and young people will work for less money at duller jobs than they had hoped.

In traditional societies, each extended family relied on its own children to care for its own elderly. The resources the community devoted to the destitute—gleaning the fields after harvest, for example—were quite limited. Modern society does not require every family to fund its retirement by rearing children; we may contribute to a pension fund and draw on the labor of the children of others. But if everyone were to retire on the same day, the pension fund would go bankrupt instantly, and we all would starve.

The distribution of rewards and penalties is manifestly unfair. The current crisis is particularly unfair to those who brought up children and contributed monthly to their pension fund, only to watch the value of their savings evaporate in the crisis. Tax and social-insurance policy should reflect the effort and cost of rearing children and require those who avoid such effort and cost to pay their fair share.

Numerous proposals for family-friendly tax policy are in circulation, including recent suggestions by Ramesh Ponnuru, Ross Douthat, and Reihan Salam. The core of a family-oriented economic program might include the following measures:

- *Cut taxes on families.* The personal exemption introduced with the Second World War's Victory Tax was \$624, reflecting the cost of "food and a little more." In today's dollars that would be about \$7,600, while the current personal exemption stands at only \$3,650. The

personal exemption should be raised to \$8,000 simply to restore the real value of the deduction, and the full personal exemption should apply to children.

- *Shift part of the burden of social insurance to the childless.* For most taxpayers, social-insurance deductions are almost as great a burden as income tax. Families that bring up children contribute to the future tax base; families that do not get a free ride. The base rate for social security and Medicare deductions should rise, with a significant exemption for families with children, so that a disproportionate share of the burden falls on the childless.

- *Make child-related expenses tax deductible.* Tuition and health care are the key expenses here with which parents need help.

- *Change the immigration laws.* The United States needs highly skilled, productive individuals in their prime years for earning and family formation.

We delude ourselves when we imagine that a few hundred dollars of tax incentives will persuade individuals to form families or keep them together. A generation of Americans has grown up with the belief that the traditional family is merely one lifestyle choice among many.

But it is among the young that such a conservative message could reverberate the loudest. The young know that the promise of sexual freedom has brought them nothing but emptiness and anomie. They suffer more than anyone from the breakup of families. They know that abortion has wrought psychic damage that never can be repaired. And they see that their own future was compromised by the poor choices of their parents.

It was always morally wrong for conservatives to attempt to segregate the emotionally charged issues of public morals from the conservative growth agenda. We know now that it was also incompetent from a purely economic point of view. Without life, there is no wealth; without families, there is no economic future. The value of future income streams traded in capital markets will fall in accordance with our impoverished demography. We cannot pursue the acquisition of wealth and the provision of upward mobility except through the reconquest of the American polity on behalf of the American family.

The conservative movement today seems weaker than at any time since Lyndon Johnson defeated Barry Goldwater. There are no free-marketters in the foxholes, and it is hard to find an economist of any stripe who does not believe that the government must provide some kind of economic stimulus and rescue the financial system.

But the present crisis also might present the conservative movement with the greatest opportunity it has had since Ronald Reagan took office. The Obama administration will certainly face backlash when its promise to fix the economy through the antiquated tools of Keynesian stimulus comes to nothing. And as

a result, American voters may be more disposed to consider fundamental problems than they have been for several generations. The message that our children are our wealth, and that families are its custodian, might resonate all the more strongly for the manifest failure of the alternatives. [E]

Caesar for a Day

Wearing a toga and a laurel wreath,
The neighbor's boy is Caesar for the day.
Beside the family car, he bows beneath
The burden of enacting Shakespeare's play
And strolls, hands clasped behind him, to and fro,
Pondering at fifteen his overthrow.

He's sought out my advice in this endeavor
And beckons me. I warn him, as a friend,
"Beware the Ides of March." He shrugs, "Whatever,"
A noble Roman stoic to the end,
Though vexed by the conspirators' designs
And by an Antony who flubs his lines.

This year, the wildfires have come early; smoke
Hangs greyly eastward over Hollywood.
The acrid, carbonaceous clouds provoke
Thoughts that our nation's health is not so good.
The boy himself is learning how states veer
Off course when they succumb to greed and fear.

But now his mother hurries from their house
And down the walk. He snaps at her, "We're late!"
She rolls her eyes at me as one who knows
Too well the cruel impatience of the great:
They come, they see, they conquer, they misrule,
And then demand you chauffeur them to school.

I could ask Caesar where his manners are,
But he seems too preoccupied to beg
For pardon as he slides into the car.
He looks bleak when I tell him, "Break a leg":
They'll just be acting, yet as we've discussed,
It's creepy to be killed by those you trust.

His toga catches in his shutting door.
He scolds and extricates the trailing pleat,
Then nods in readiness; the car in gear,
He and his mother sweep off up the street.
However much has altered since the days
When I took part in high-school skits and plays,

The world still offers its bewildering mix
Of good and evil, and we still engage
Issues of friendship and of politics,
Exploring them in books or on a stage
In hopes the trials of others, being known,
Will help us meet and understand our own.

I hope my young friend triumphs on the boards
And hope his generation won't rehearse
A past that has prized ploughshares less than swords.
Meanwhile, though, no propitious winds disperse
The ashy, heavily smoke-curtained sky
Through which the sun glares like a bloodshot eye.

—Timothy Steele