Social Security and Fertility

Discussion of Allan Carlson's Paper

Family Research Council, February 23, 2005

by John D. Mueller

Ethics and Public Policy Center

and LBMC LLC

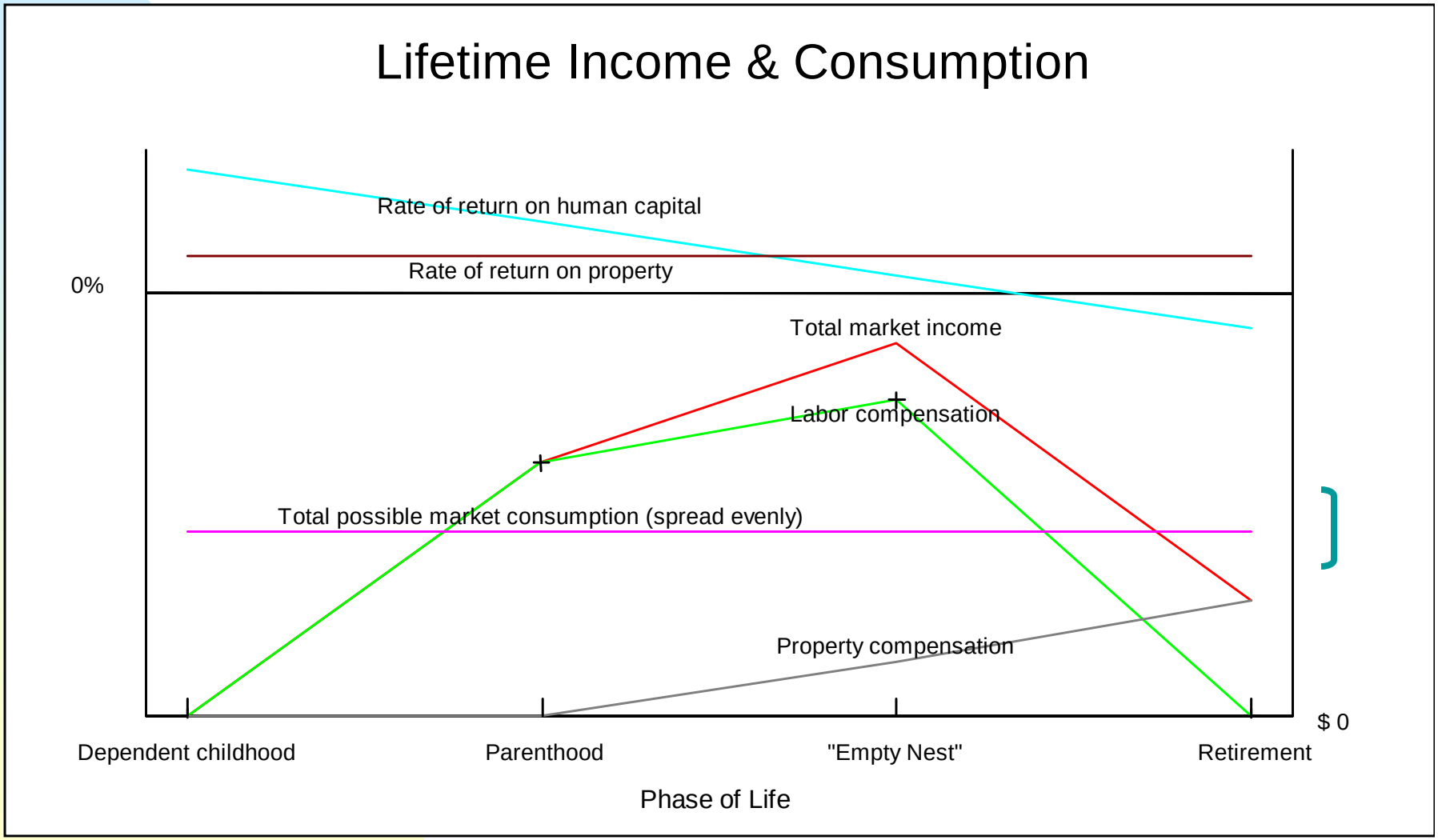
Three Questions

- What Does Social Security do?
- What Effect Does Social Security Have on Fertility?
- Legal Abortion and Social Security

1. What Does Social Security Do?

- Active parents and “empty nesters” earn more than they consume--but children and retirees, less.
- Social Security addresses the “retirement gap.”
- Main problem for Social Security reform: avoiding a “child gap” and societal “death spiral.”

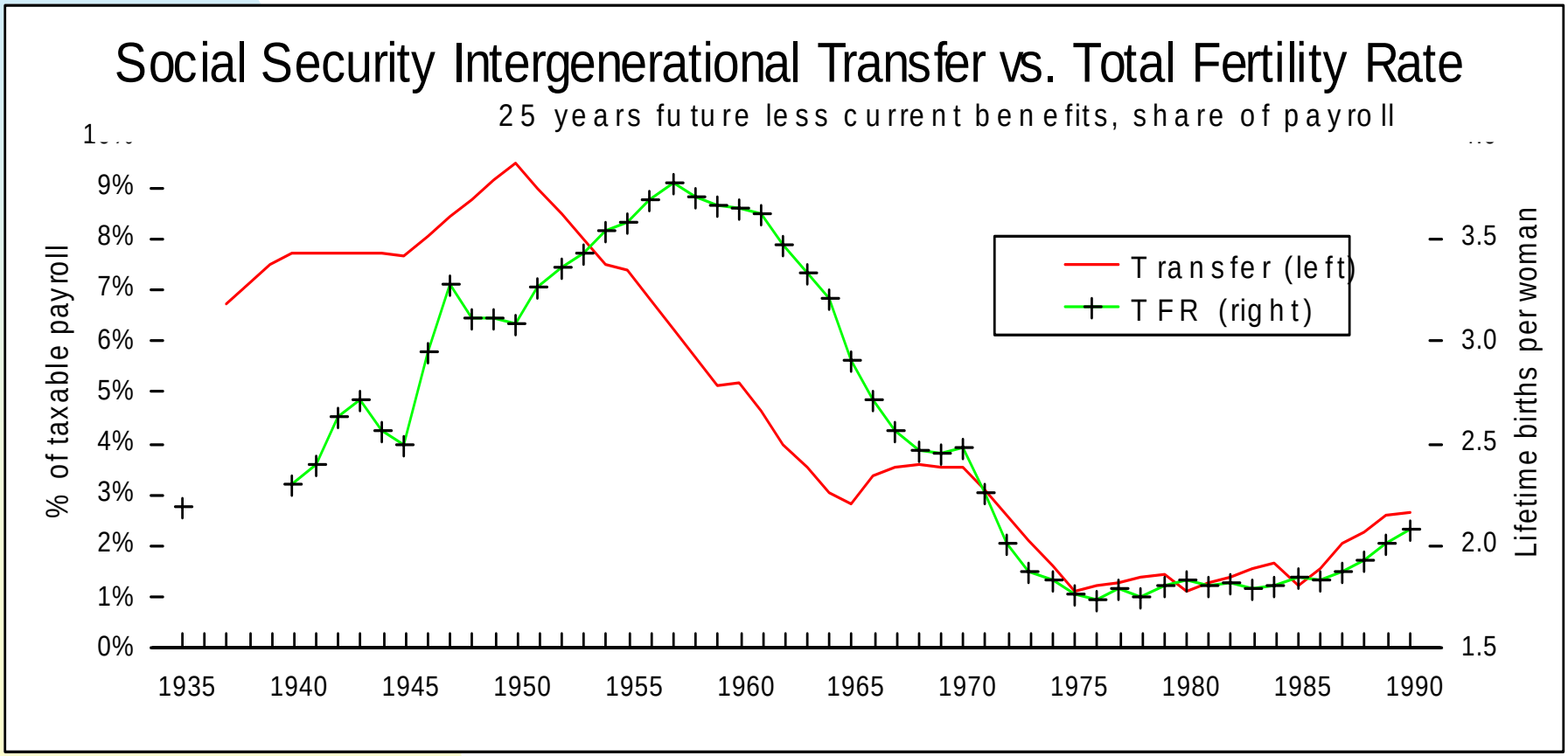
The Child and Retirement Gaps



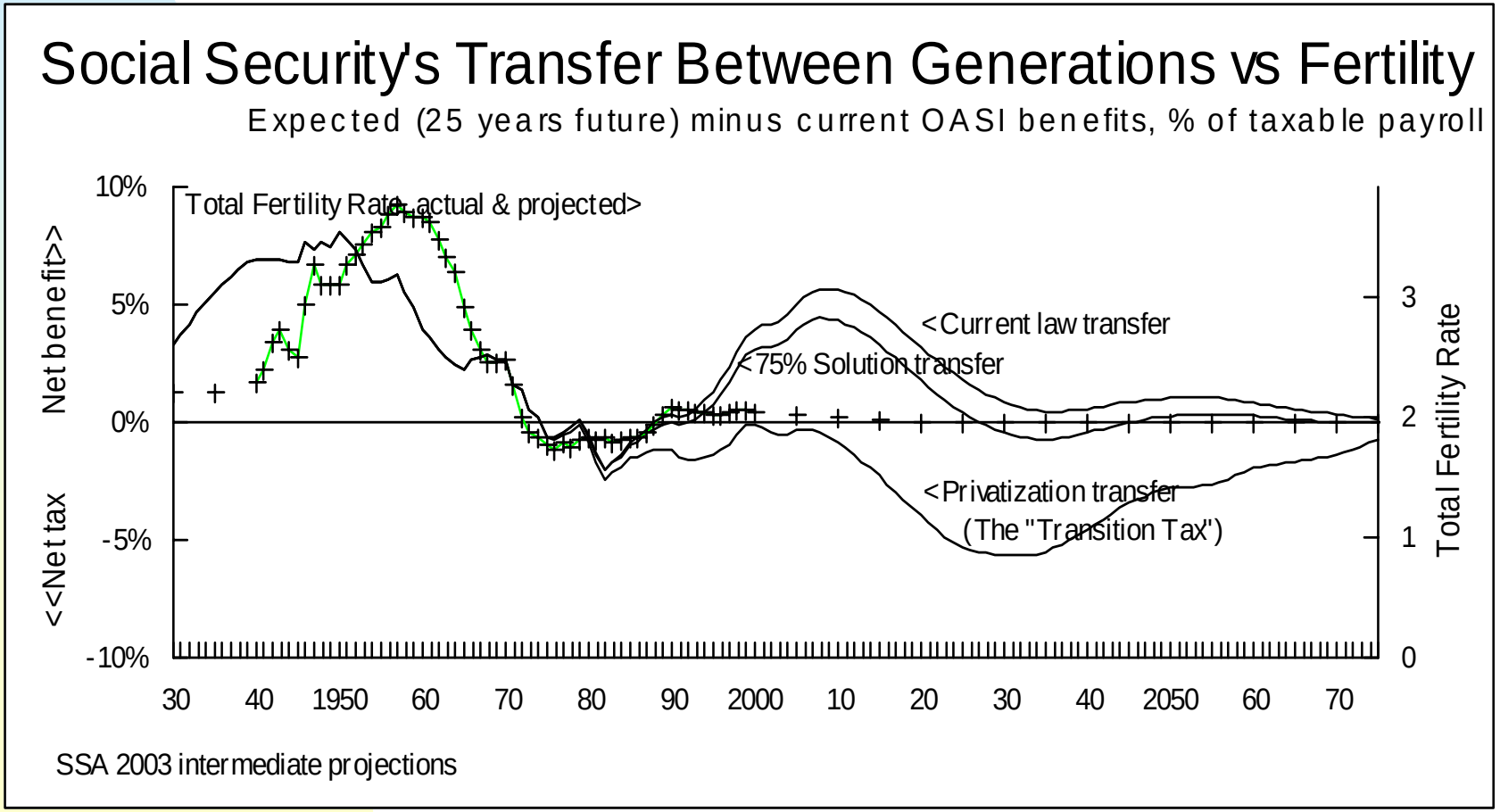
2. Social Security and Fertility

- As Allan Carlson noted, “moderate-sized public pensions actually have a positive effect on fertility.”
- The “greatest generation” invested its windfall in the Baby Boom.
- Poorly designed Social Security reform would make it harder to raise a family.

Did Social Security Help Cause the Baby Boom?



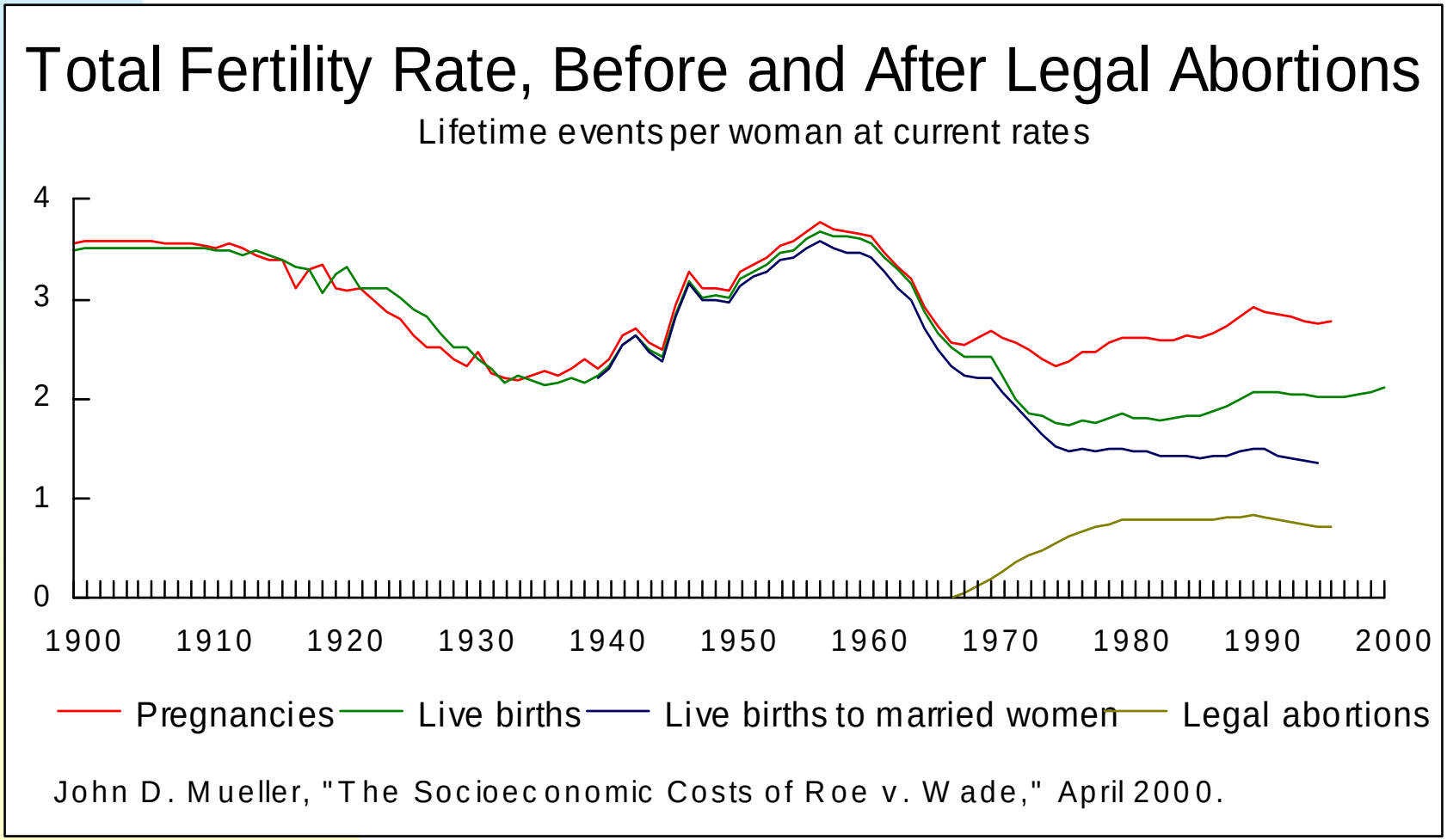
What Effect Would Proposed Reforms Have on Fertility?



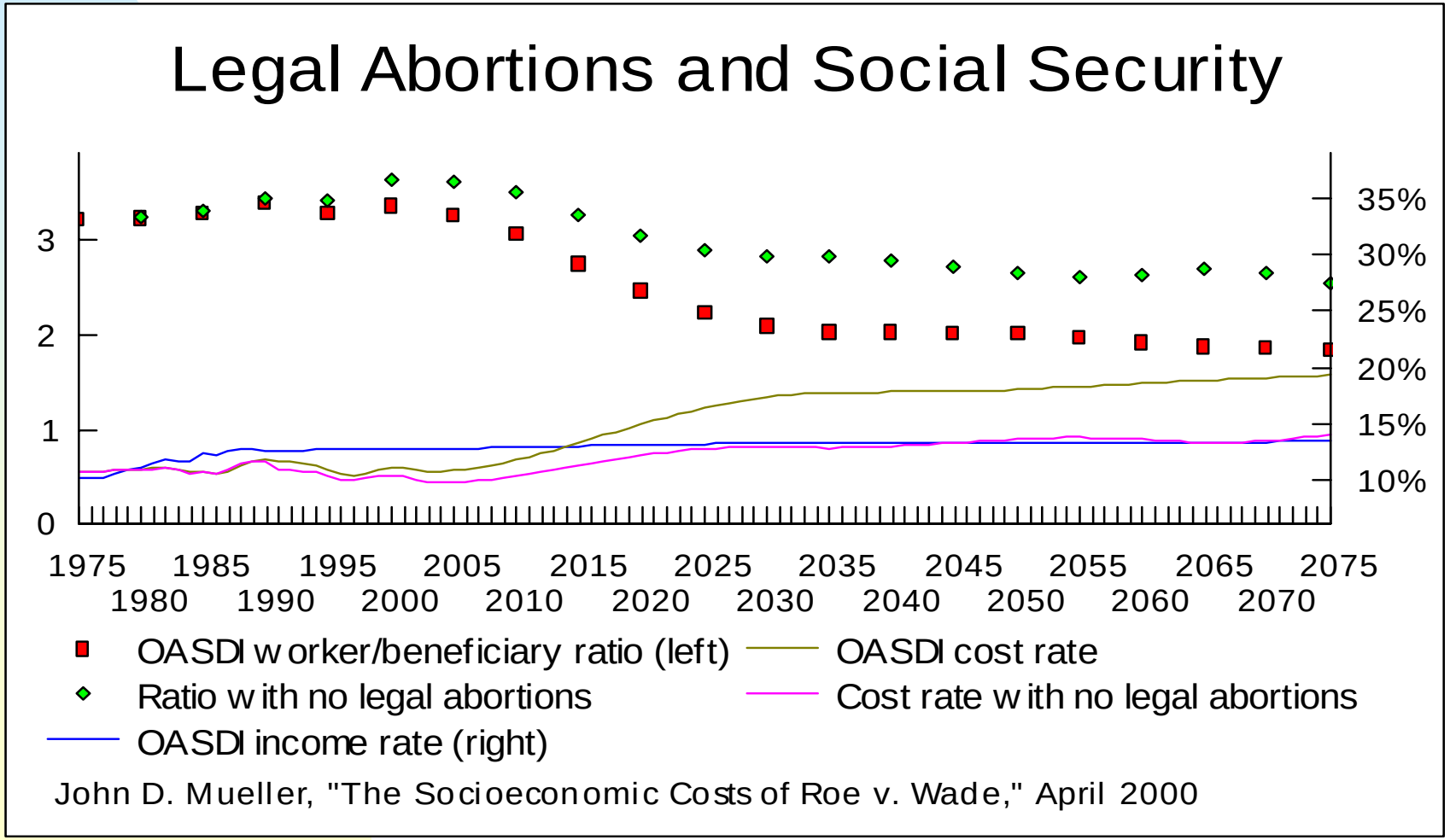
3. Legal Abortion and Social Security

- As Allan Carlson quoted Charles Holm: “reduced fertility levels result in subsequent increases in social security expenditures.”
- Legal abortion has cut lifetime births per women by 0.6-0.8.
- Legal abortion accounts for more than the entire expected Social Security deficits.

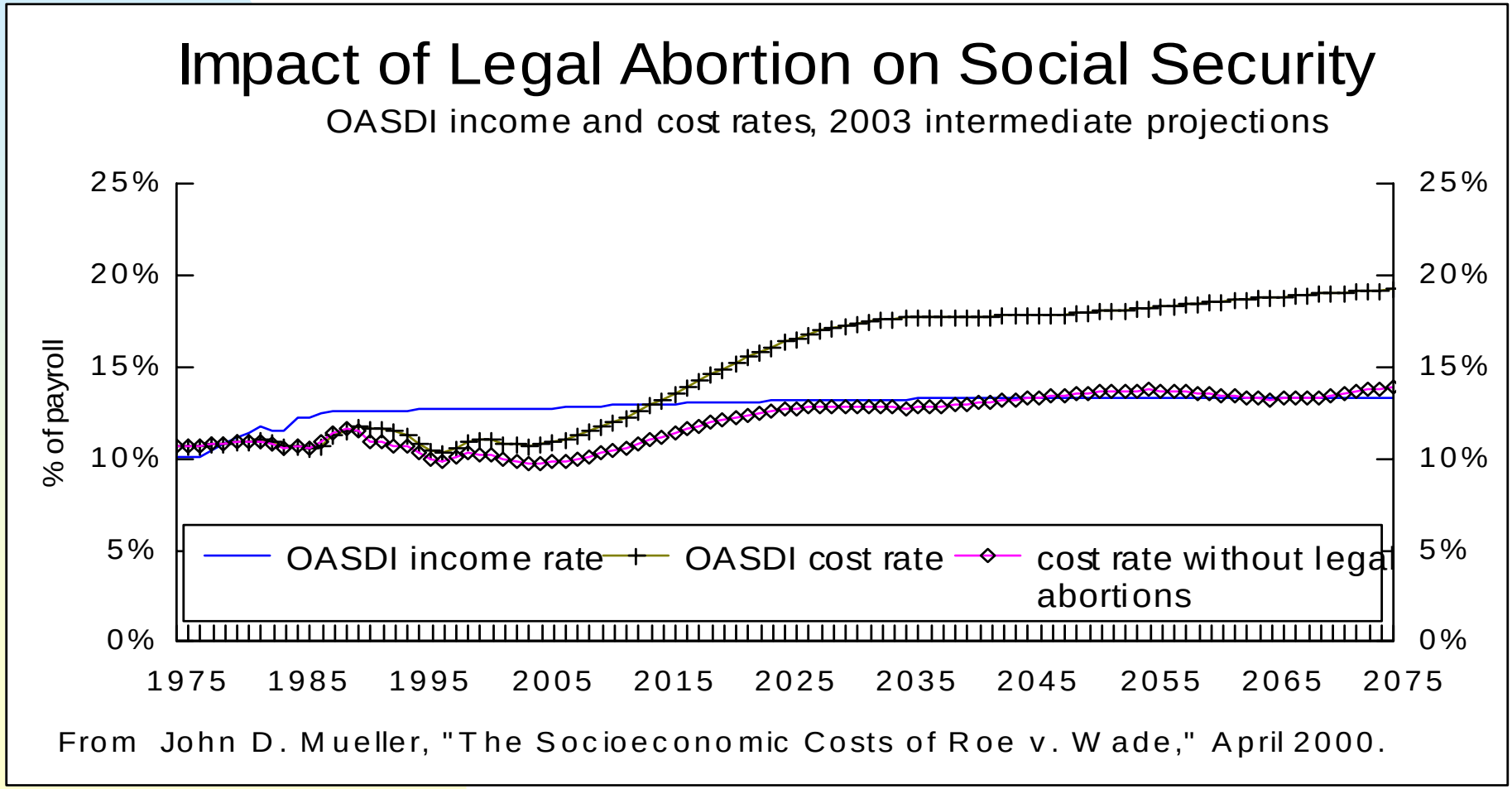
Legal Abortion and Fertility



Legal Abortion and Worker/Retiree Ratio



Legal Abortion and Social Security

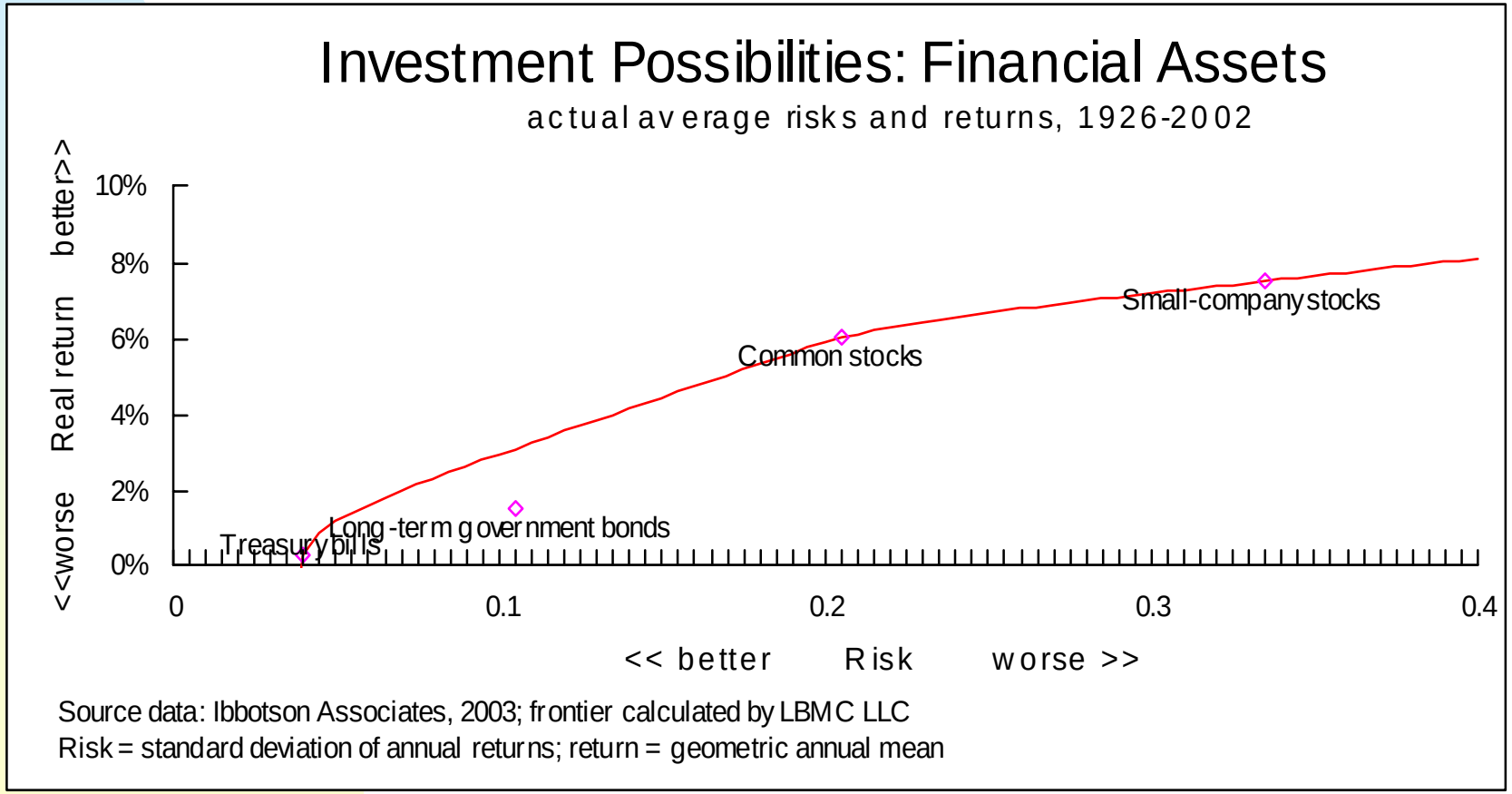


Conclusion

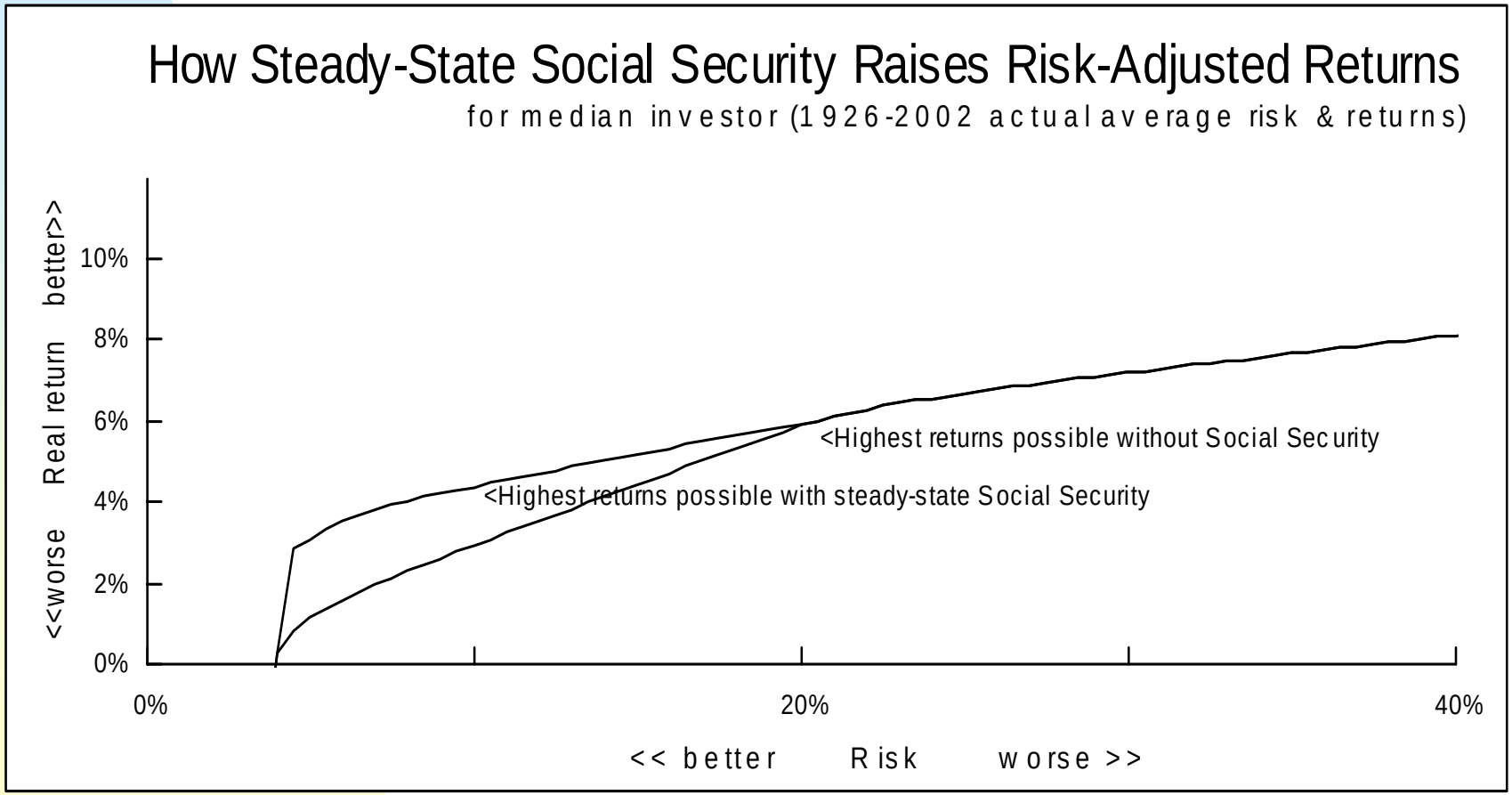
- Social Security affects fertility--and vice versa.
- Ending legal abortion would still avoid over half of expected Social Security deficits.
- If not, both payroll tax hikes *and* compulsory retirement saving reduce investment in children.
- Solution: matching cuts in payroll taxes and promised benefits; family-friendly income tax reform.

Supplementary Charts

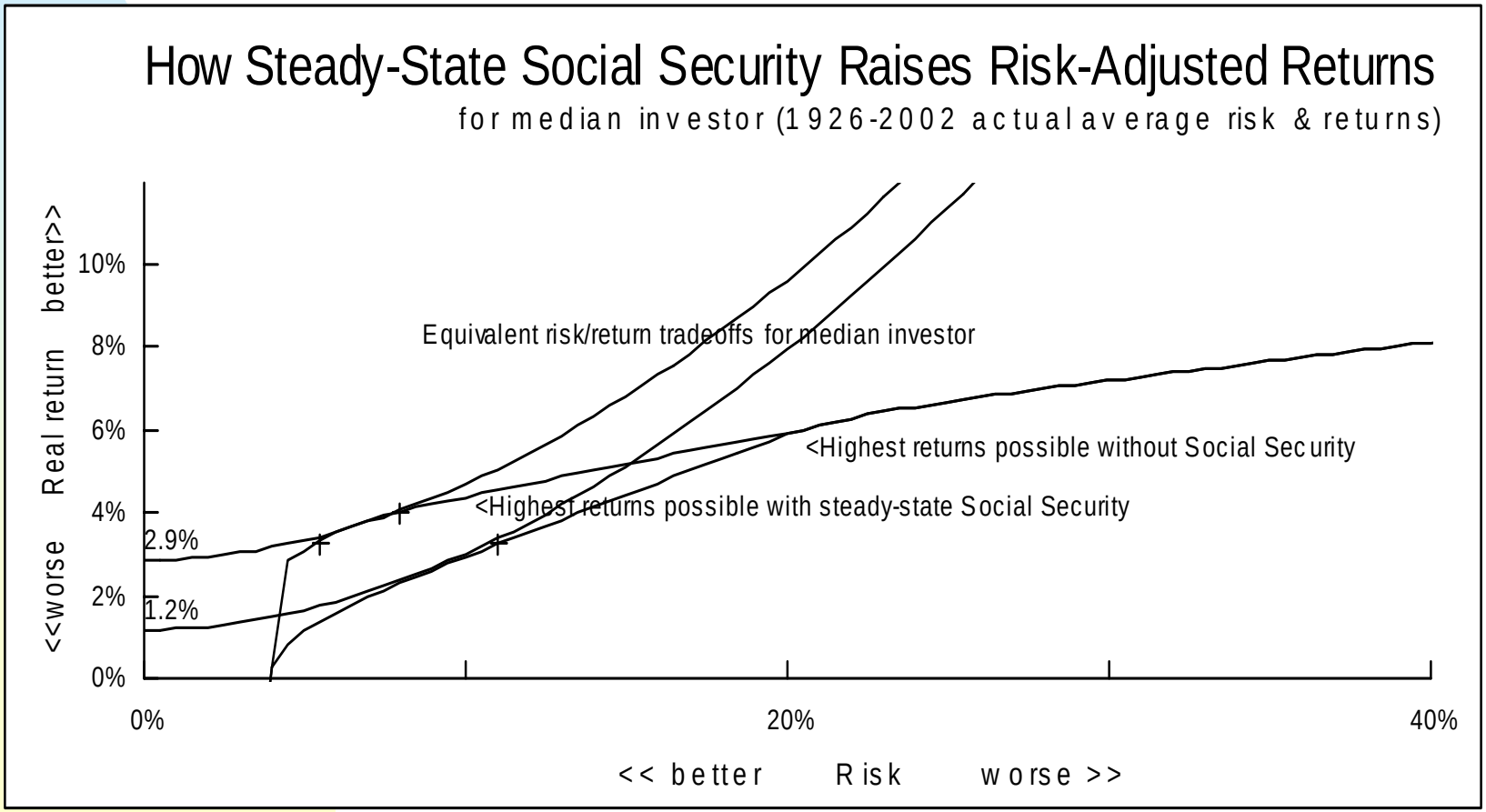
Investments without Social Security



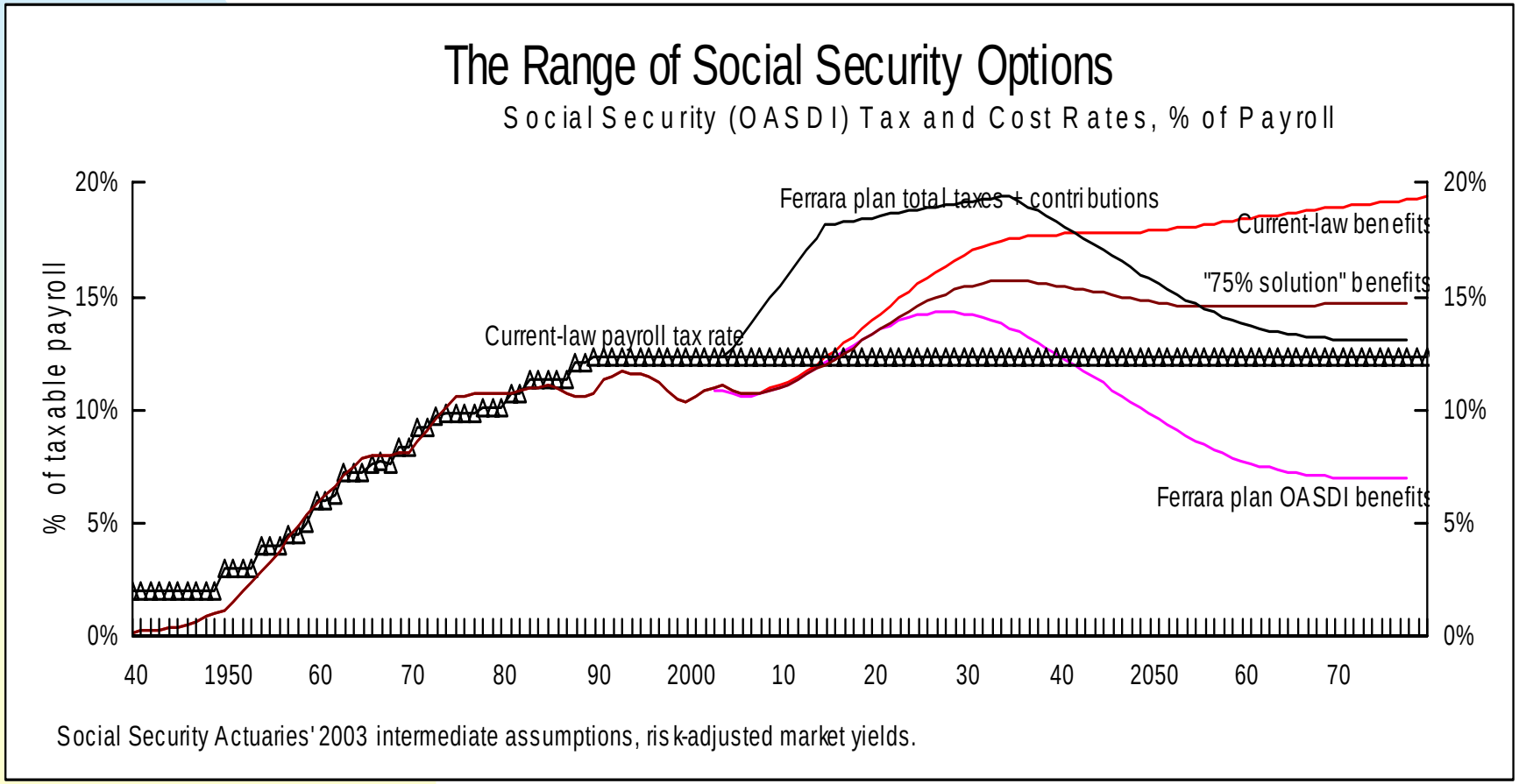
Investments with Social Security



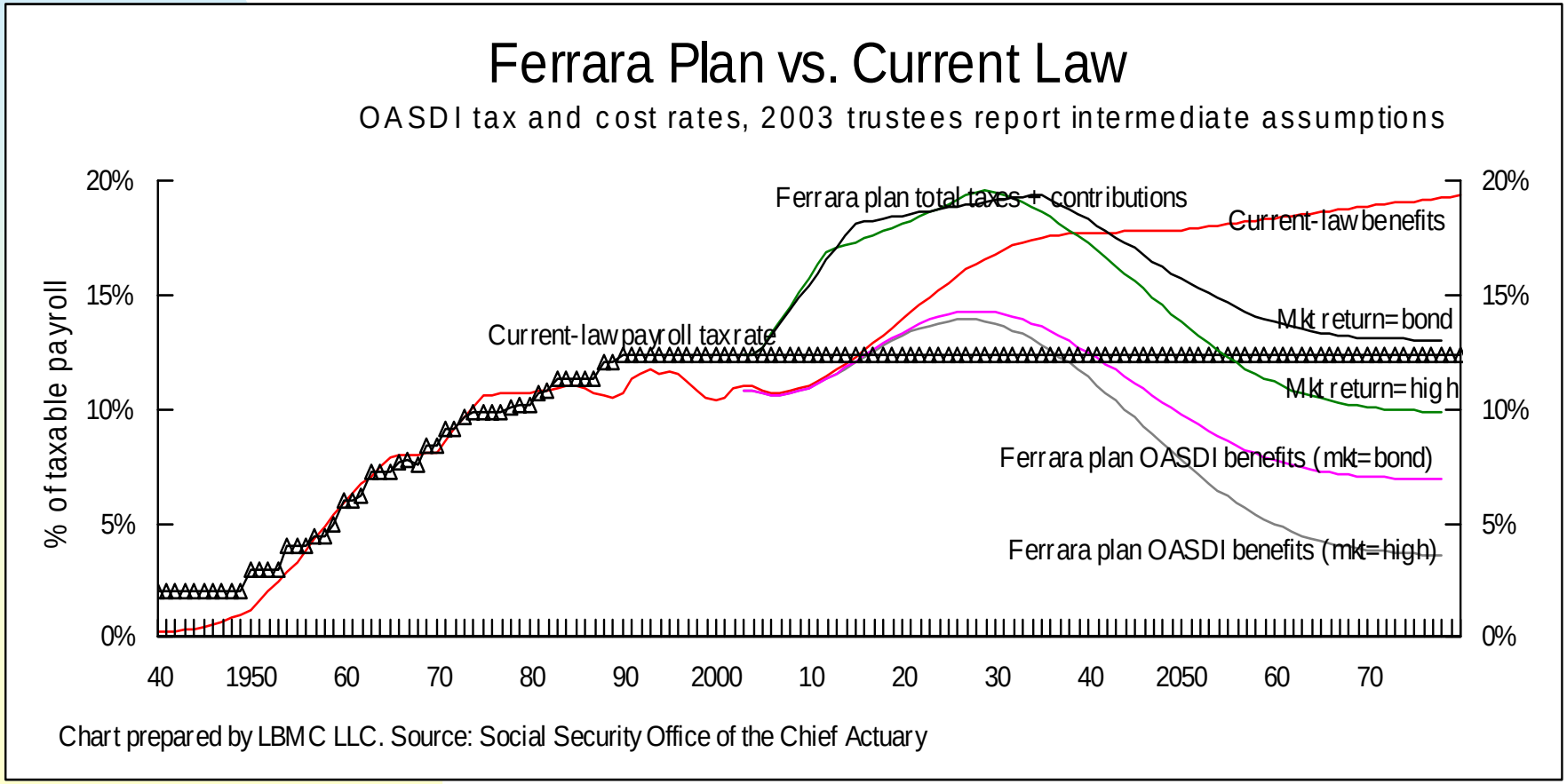
How Social Security Raises Returns



The Range of Social Security Options



The Transition Cost Swamps Rates of Return



Abortion and Social Security (2000 chart)