

Leaving A Legacy for Our Children

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Brookings

Intergenerational Issues in an
Aging Society

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Today's Children Face Unprecedented Challenges

- Nuclear Proliferation and A Global War on Terror
- Global Warming
- Fragmented Families
- A Mountain of Debt
- The Need to Care for An Aging Population



Source: "Calvin and Hobbes" by Bill Watterson

How are Children Doing?

A comparison of children in the U.S. with children in other rich countries:



- Overall child well-being: 18 out of 21
- The U.S. ranks poorly on all 5 measures:
 - Health and safety: 21 out of 21
 - Family/peer relationships: 20 out of 21
 - Behavior and risks: 20 out of 21
 - Material well-being: 17 out of 21
 - Education: 12 out of 21

While children have made some gains over time...

- *Elementary math and reading scores are up*
- *Risky behaviors have declined*
- *Family income*

The proportion of students meeting or exceeding performance standards in reading and math increased modestly from the 1970s, especially at younger ages and in math.

Median income of families with children from \$10,000 in



They have also faced serious declines...



Children are eating more and exercising less

The percentage of overweight children tripled from 6 percent in the late 1970s to 18 percent recently

More children are born outside of marriage

The proportion of births to unmarried women has more than tripled, growing from 11 percent in 1970 to 40 percent in 2007.

Fewer are graduating from high school and reading has not improved



The high school graduation rate has declined from about 80 percent in the 1960s to about 75 percent in recent years and reading levels among students at age 17 have stagnated since 1971.

Sources: U.S. Department of Health and Human Services, Centers for Disease Control and Prevention; and James J. Heckman and Paul A. LaFontaine, "The American High School Graduation Rate: Trends and Levels," NBER Working Paper No. 13670. December 2007; U.S. Department of Education, National Assessment of Educational Progress;

Possible Solutions:

- More Responsible Parenting
- More Responsible Policies to Equip Children to Cope with the Challenges
- More Fiscal Responsibility
- A New Social Contract between the Generations

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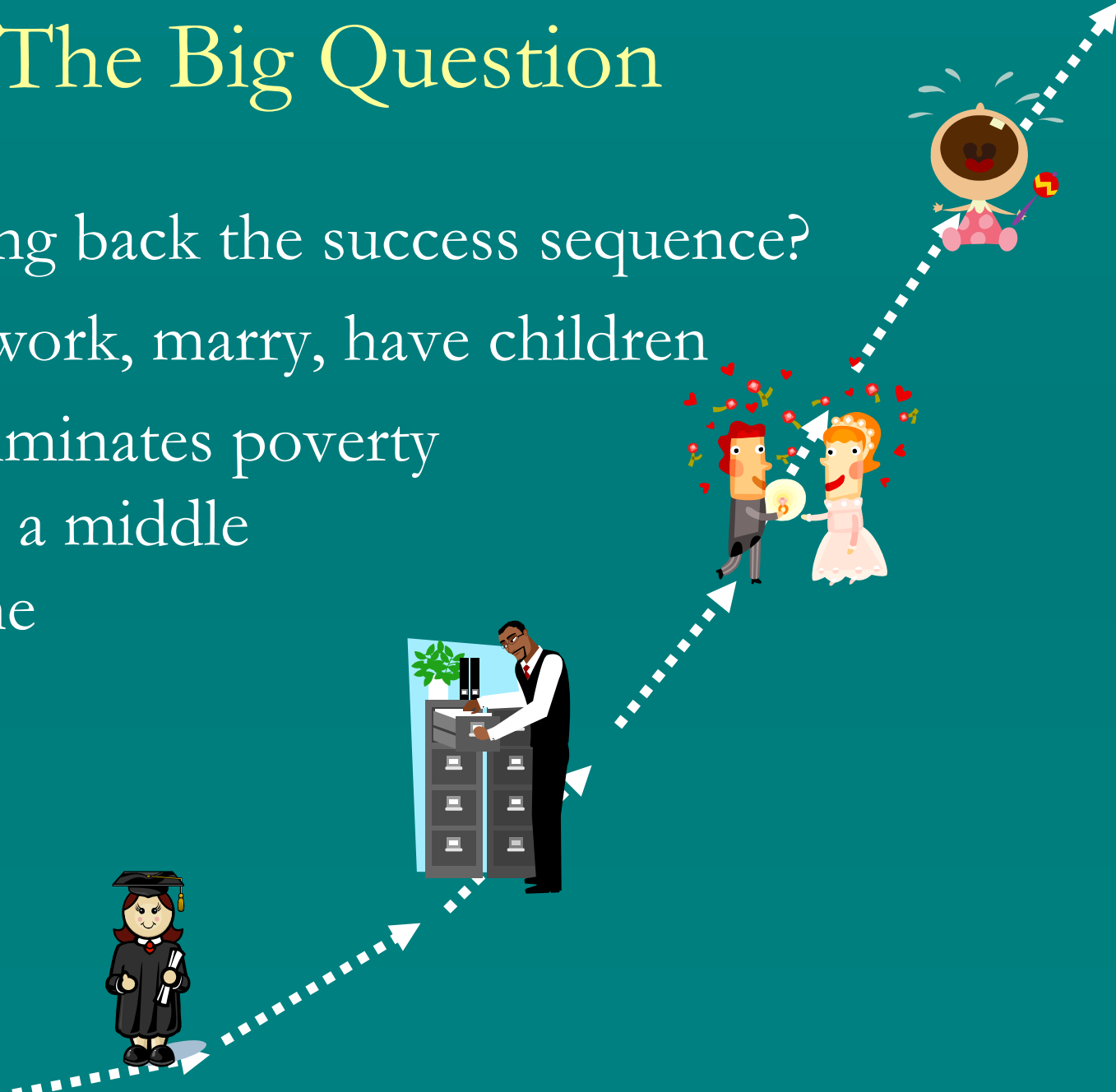
The Problem

- Children raised in 2-parent family have best chance of success
- Majority will spend time in a one-parent household
- Teen Pregnancy Rates: some success until recently
- But teen pregnancy rates are still very high and two-fifths of births are out-of-wedlock
- The new stratifying variable in American life

Sources: The National Campaign to Prevent Teen and Unplanned Pregnancy, "One in Three: The Case for Wanted and Welcomed Pregnancy," May 2007; Sarah McLanahan, Elisabeth Donahue, and Ron Haskins, "Introducing the Issue," *Future of Children* 15 (Fall 2005): 4-12.

The Big Question

- Can we bring back the success sequence?
- Graduate, work, marry, have children
- Virtually eliminates poverty and insures a middle class income



Income Class of Individual by Family's Adherence to Social Norms, 2007

Income Class ^a	All Individuals ^b	Individuals in families by number of norms upheld ^c :		
		All three norms upheld	One or two norms upheld	No norms upheld
Poor	11.4	2.0	26.9	76.0
Lower middle	32.1	24.2	47.9	17.1
Middle	25.8	31.3	16.2	3.5
Upper middle	14.7	20.0	5.1	2.0
Upper	15.9	22.5	4.0	1.4
Percent of Population	100	64.8	33.8	1.4

Source: Sawhill and Haskins, 2008.

a. Income classes are family-size adjusted and refer to individuals living Below Poverty, 100-299 Percent of Poverty, 300-499 Percent of Poverty, 500-699 Percent of Poverty, and More than 700 Percent of Poverty, respectively.

b. Table excludes individuals living in families with heads under age 25 or older than age 64, as well as individuals living in families with heads that receive disability income. Observations with negative income are included and coded as living below the poverty line.

c. The three norms are complete high school, work full time, wait until age 21 and marry before having children.

What Leaders Say

- *“I want an America where family values live in our actions, not just in our speeches...governments don’t raise children; parents do.”* William Clinton, July 16, 1992



- “Healthy marriages are not always possible. But we must remember, they are incredibly important for children. Our hearts know this and our nation must recognize this.”*
George W. Bush, June 7, 2001

- *“Of all the rocks upon which we build our lives, we are reminded today that family is the most important.”* Barack Obama, June 15, 2008



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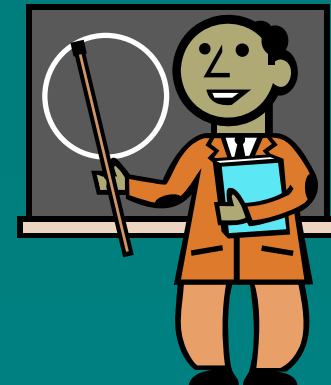
High Priority Initiatives

- Nurse Home Visiting
- Access to Health Care



- Early Childhood Education
- Subsidized Day Care

- Better Teachers
- National Educational Standards



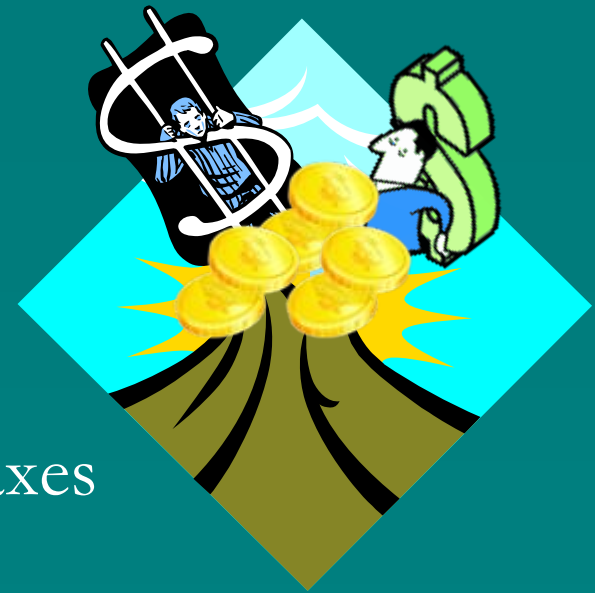
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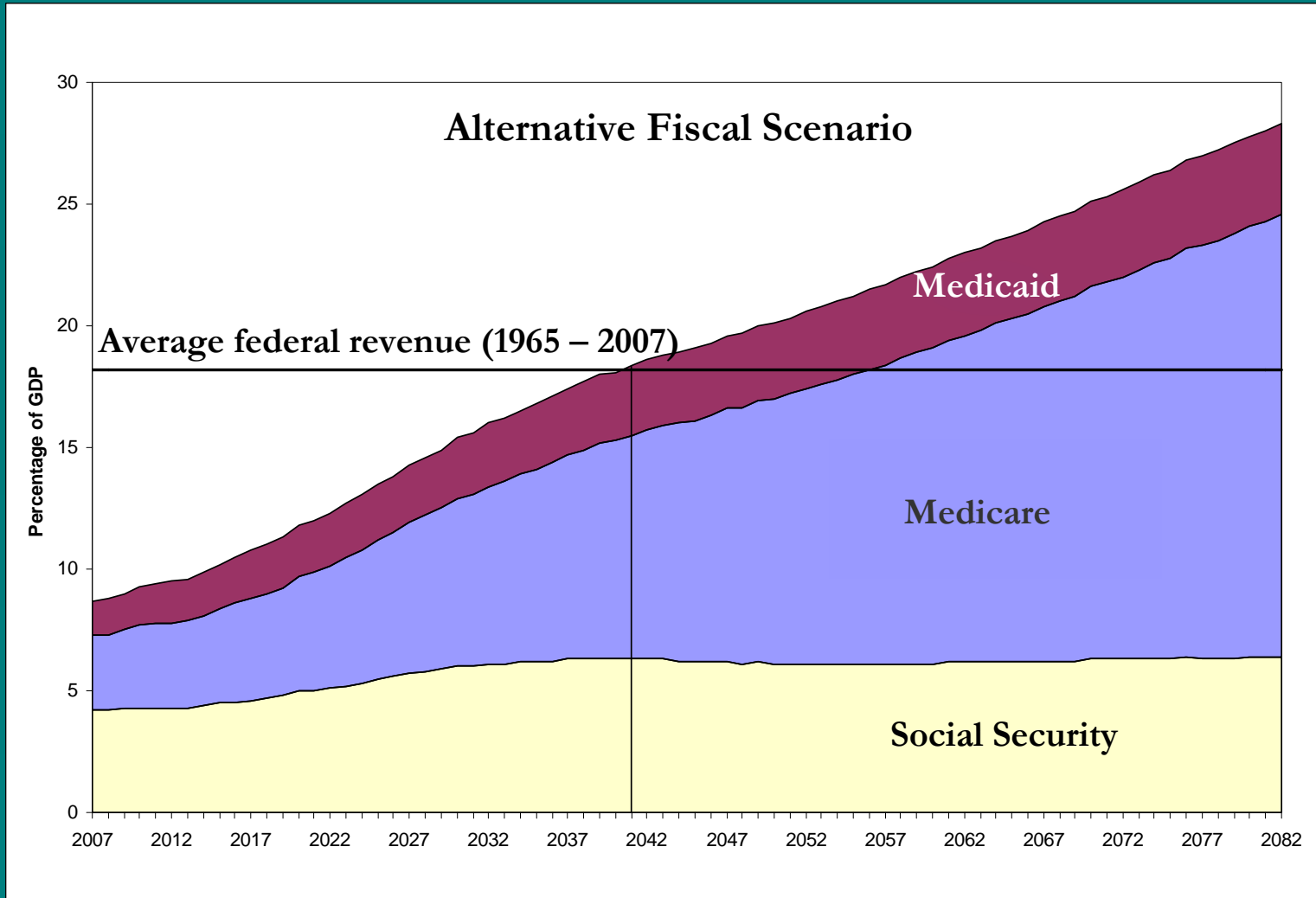


The Problem

- The Exploding National Debt
 - During recession (2009 deficit: \$1.85 trillion)
 - Longer term (\$10 trillion over next decade)
- Consequences
 - Borrowing from foreigners
 - Interest on the debt
 - Loss of flexibility
 - Next generation pays higher taxes



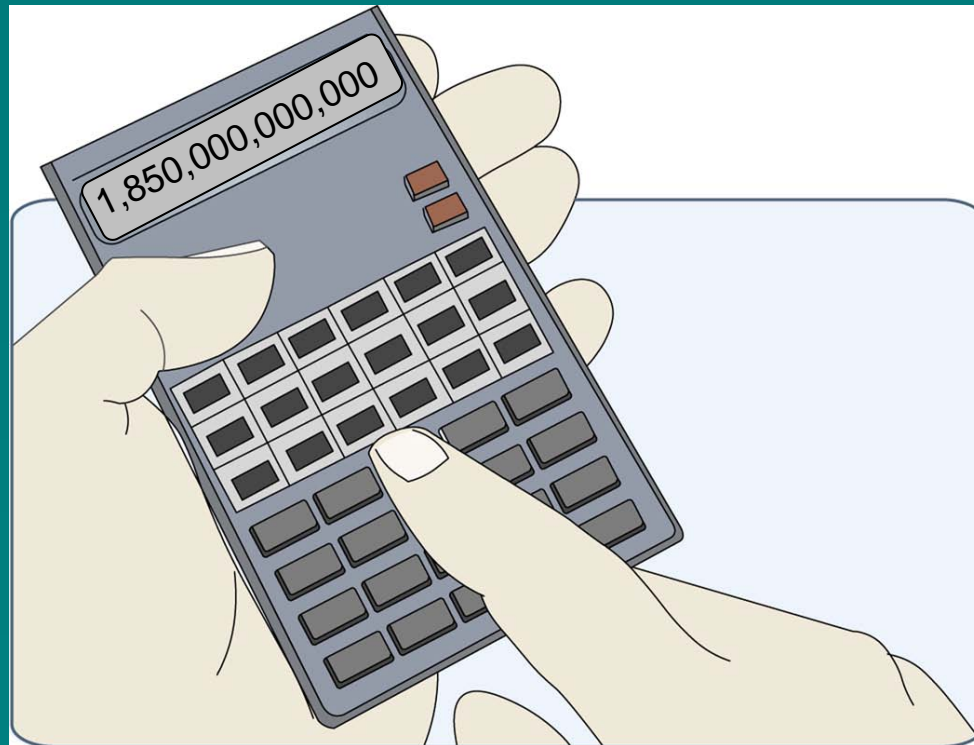
Why Current Trends are Not Sustainable



Source: CBO, The Long-Term Budget Outlook, December 2007, Alternative Fiscal Scenario.

What's Needed

- Higher taxes
- Less spending (reformed entitlements)



Why Taxes Can't Be the Entire Solution

- Assume taxes bore the entire brunt of the projected increase in spending
- Under a reasonable scenario the tax rate for:
 - Those in the **10 percent** bracket would increase to **26 percent** by 2050.
 - Those in the **25 percent** bracket to **66 percent**
 - Those in the **35 percent** bracket to **92 percent**
 - Corporations would increase from **35** to **92 percent**

Source: CBO, Financing Projected Spending in the Long Run (letter to Senator Judd Gregg), July 9, 2007; assumes excess health care cost growth of 2.5 percentage points (which is close to the historical average).

Why a War Dividend Can't be the Entire Solution

- Amount spent on the wars in Iraq and Afghanistan since 2001:



- The “war dividend” could equal \$700 billion between 2010 and 2014.
- Reigning in procurement of new weapons systems could save another \$35 to \$40 billion per year
- But there are other areas that will need an increase in resources:
 - Afghanistan
 - Rebuilding the military post-Iraq
 - The cost of drawing down and relocating troops and equipment is likely to be high

Social Security Reform

- Adjust age of retirement or index to longevity
- Encourage people to work longer
- Reduce future benefits for better-off while maintaining for less well-off
- Mandate *additional* savings for retirement in personal accounts
- Raise payroll tax cap



Health Care Reform

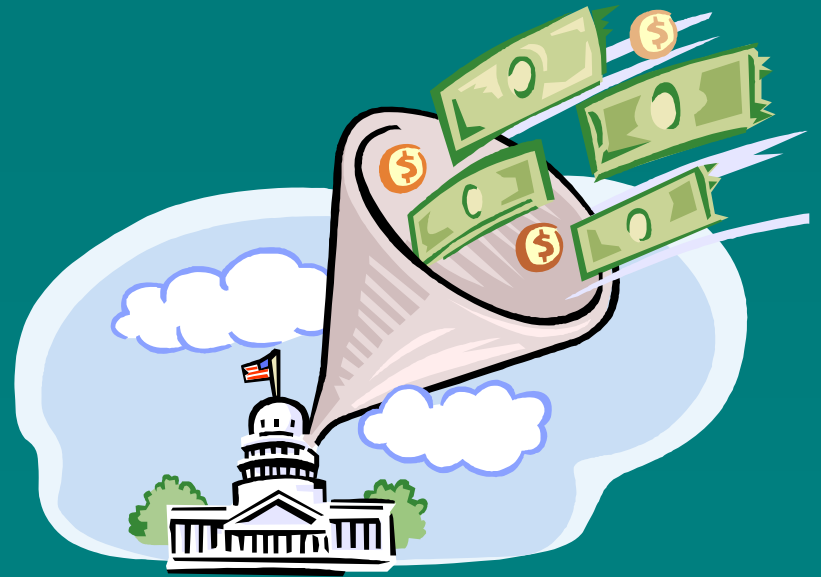


- Basic package for all (evidence-based)
- Guaranteed access
- Subsidies related to income
- Limits on spending via improved efficiency, reimburse based on evidence of effectiveness
- We should have the health care system we're willing to pay for (e.g., via VAT)



Tax Reform

- Do not extend all Bush tax cuts
- Eliminate or reform existing deductions, credits, and other preferences
- Increase compliance
- Enact new taxes
(e.g. on energy and/or on consumption)



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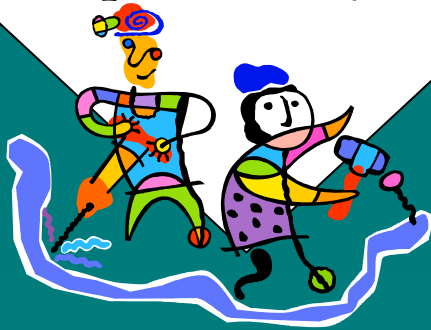
Can We Be Fiscally Responsible and Make the Needed Investments, too?

Yes, if we...

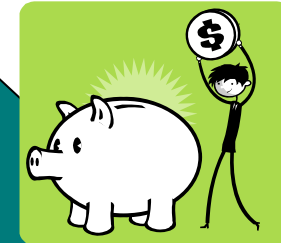
- Revise the Intergenerational Contract
- Gradually reallocate resources across the life cycle
- Invest more when people are young, expect them to contribute more when they are old
- Combine government and personal responsibility

Why This Makes Sense

Investing in kids
increases
productivity



Enables people to
earn and save
more



Better able to save
to pay for own
retirement



Selected Statistics for the Elderly and Non-Elderly

	Under 65	65 and Older
Poverty rate ¹	12.9%	9.7%
Average income per household member ²	\$26,624	\$25,128
Mean income ²	\$73,720	\$44,121
Median income ²	\$56,545	\$28,305
Average annual change in real income (1994 - 2007) ³	0.72%	0.72%
Average annual change in real income (2000 - 2007) ³	-0.28%	0.64%
Median net worth ⁴	\$69,400	\$190,100
Homeownership ⁵	63.6%	79.0%
Percentage of homeowners with no mortgage ⁵	23.0%	73.4%
Percentage covered by health insurance ⁶	82.9%	98.1%
Note: Data is for the year 2007 unless otherwise noted		

Sources:

¹Author's calculations from U.S. Census Bureau, Table POV01

²U.S. Census Bureau, Table HINC-01

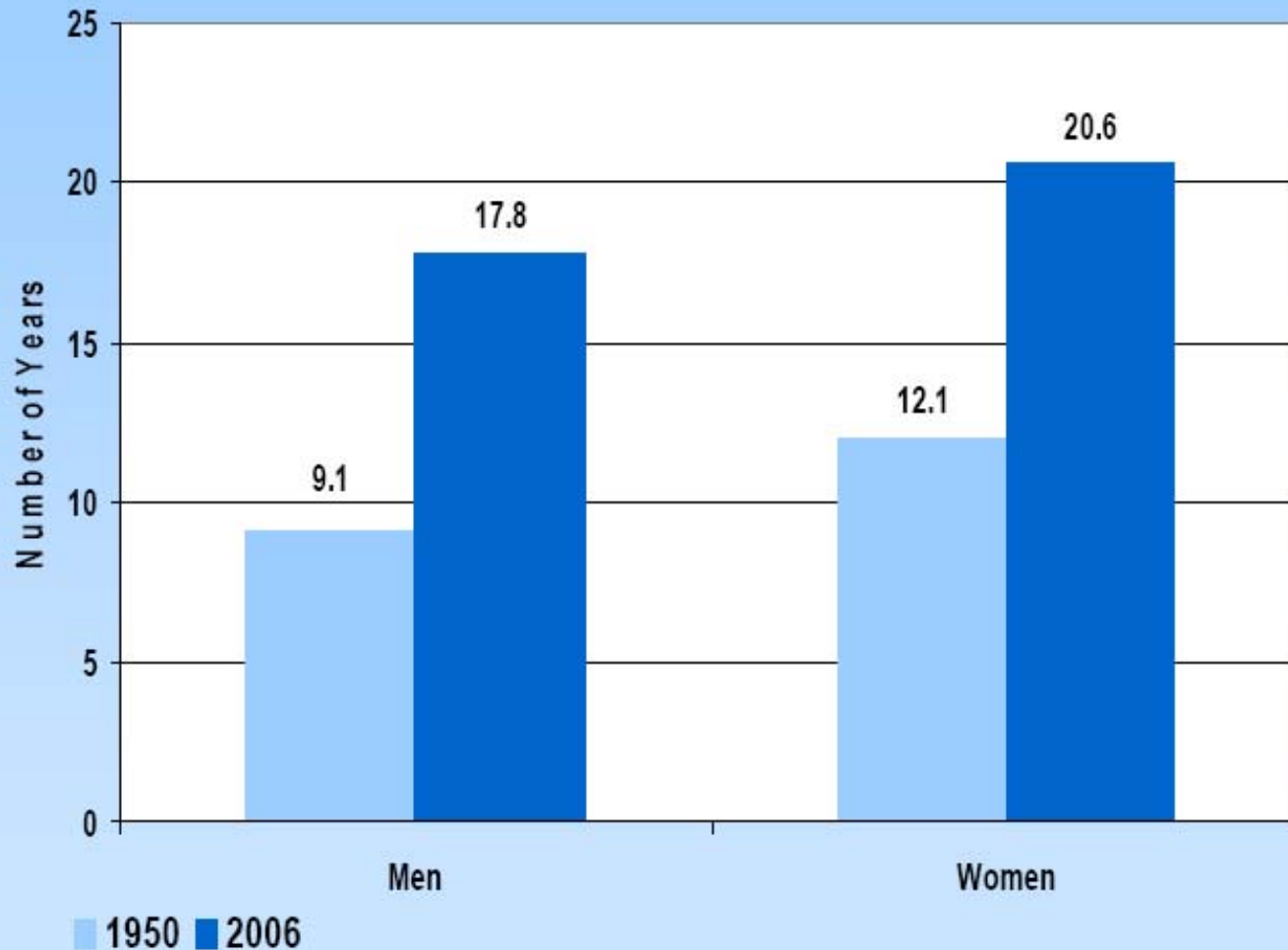
³Author's calculations from U.S. Census Bureau, Historical Income Table H-10 and Table HINC-01, 1995 - 2007.

⁴Data from 2004; data for those under 65 and 65 and older were not available for this statistic, so the age groups 35-44 and 65-74 were used. See Brian K. Bucks, Arthur B. Kennickell, and Kevin B. Moore, "Recent Changes in U.S. Family Finances: Evidence from the 2001 and 2004 Survey of Consumer Finances," Table 1, Federal Reserve Bulletin, vol. 92, February 2006.

⁵Author's calculations from the Consumer Expenditure Survey

⁶U.S. Census Bureau, Table HI05

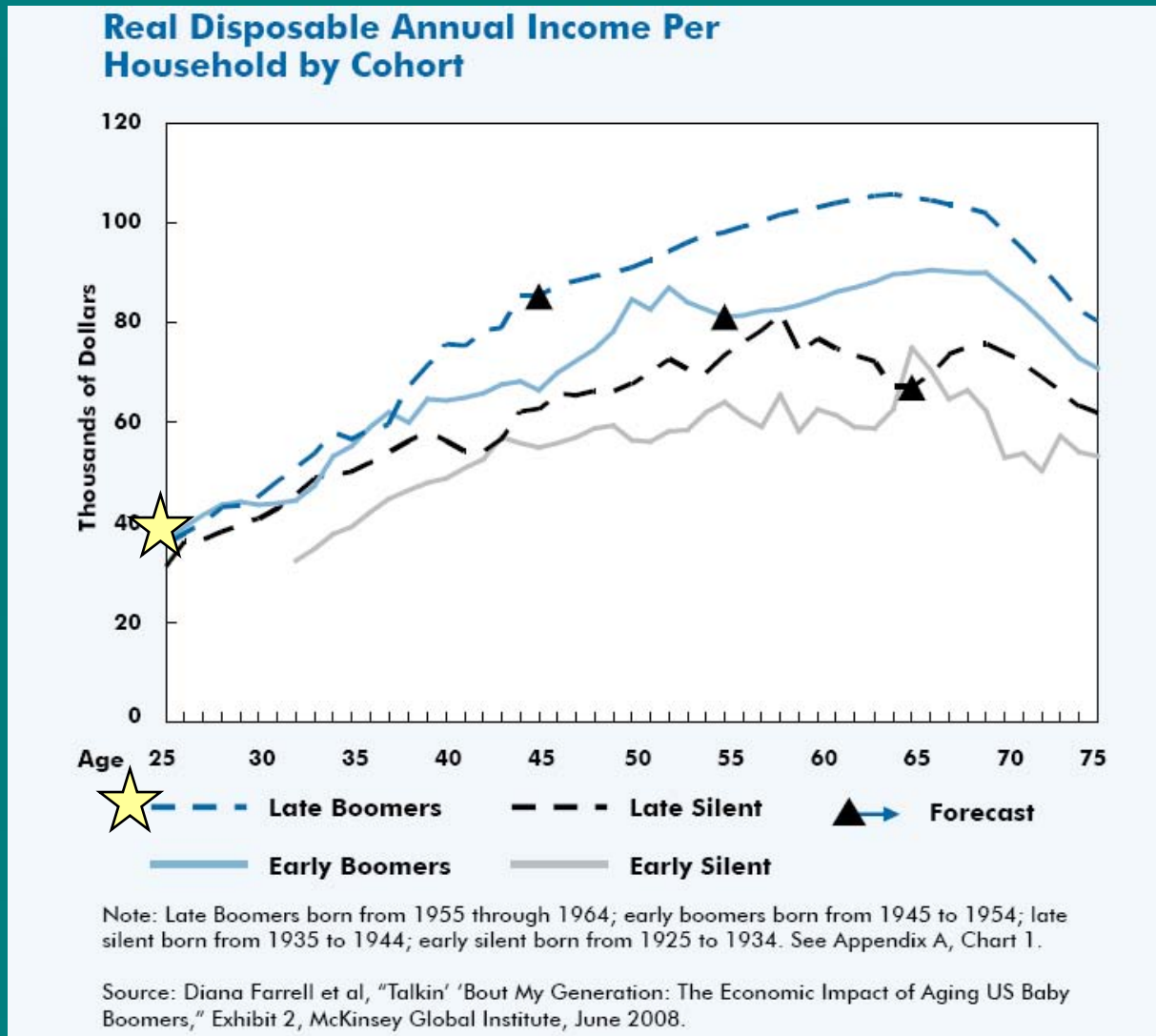
Average Number of Years Spent in Retirement: 1950 and 2006



See Appendix A, Chart 2.

Source: Isabel V. Sawhill, "Paying for Investments in Children," in *Big Ideas for Children: Investing in Our Nation's Future*, ed. First Focus (Washington, D.C.: First Focus, 2008).

Late Boomers will have Incomes of over \$100k on average in their peak earning years



Source: Isabel V. Sawhill, "Paying for Investments in Children," in *Big Ideas for Children: Investing in Our Nation's Future*, ed. First Focus (Washington, D.C.: First Focus, 2008).

Implications for Current Policy

- Deal with the recession NOW
- Enact now but GRADUALLY phase in increased taxes and entitlement reforms
- Make needed investments in younger families and their children
- Must do all together to reshape the intergenerational contract





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