Robbing Parents to Pay Paul

Why Federal Policymakers Need to Counterbalance the 'Parents' Penalty'

William Mattox

National emergencies often provoke dramatic responses from public policymakers. Sometimes, these responses are well conceived and do demonstrable good. Sometimes, they are ill conceived and the cure ends up being worse than the disease.

And sometimes, even politically-popular responses that help alleviate a crisis have serious unintended consequences that linger long after an emergency has passed—making future problems more likely, more severe, and more daunting to address.

As today's policymakers seek to address today's national emergency, those at the federal level ought to consider the still-lingering unintended consequences of a New Deal program enacted during the Great Depression. For unless a "bug" or "virus" deeply embedded in the Social Security system is brought under control, the long-term sustainability of the American way of life will be increasingly endangered. And this rather ominous threat ought to influence what policies are adopted even now in response to the major national challenges before us.

Parents' Double Burden

Whatever else one may think of Social Security, the creators of this government transfer program inadvertently undermined the well-being of families with children in designing their policy. To be sure, this was not their intent; and, to be fair, New Deal lawmakers probably cannot be faulted for failing to anticipate the sweeping cultural and technological changes that have facilitated America's retreat from childrearing.

Nevertheless, the Social Security system—and its old-age cousin, Medicare—rob parents of the social insurance value of raising productive children. They force parents raising children to pay more—to pay twice, in effect—to keep these government programs afloat. First, parents are required to "contribute" payroll taxes just like everyone else. Second, parents are expected to bear the costs of raising the next generation of workers on whom the Social Security and Medicare systems depend.

Considered alone, neither of these practices would seem to be problematic. After all, who could object to every earner paying his or her "fair share?" And who could find fault with the idea that parents ought to be economically responsible for the children they bring into this world?

So, it is easy to understand why the New Dealers failed to see the harm in their design—even though there were better ways to devise an old-age income security policy. Indeed, the New Dealers could have designed Social Security to work in the manner that various Individual Retirement Accounts work today—as a voluntary savings plan offering protection against old-age poverty and/or dependency on others.

But the New Dealers were thinking more about their immediate crisis than the long-term implications of their actions. Thus, instead of creating a plan to encourage voluntary savings, they devised a mandatory entitlement program that took monies from younger taxpayers and gave them to older beneficiaries. Not only did this transfer program prove to be a boon to its first old-age recipients (who paid little or nothing into it), but it also established an unstable foundation for the program's long-term sustainability.

Indeed, as we will see, the central problem with the Social Security system is not that it offers a comparably poor return on investment compared to other old-age income security programs (though its critics are certainly right to levy this complaint). No, the central problem with the design of Social Security is that it undercuts the economic well-being of the very people (parents) on whom the system's future depends. This serious design flaw renders Social Security unstable—and unfair to parents—*unless counterbalancing measures are adopted*.

The Natural Economy

To more fully understand the problems associated with the Social Security system's design, it may be well to step back and consider how the "natural economy" functions free from government intervention. In the natural economy, people have a powerful incentive to "be fruitful and multiply" because they know that without offspring to potentially lean on when they grow old, they could become destitute (should their health falter prematurely or their personal savings run out). In effect, the natural economy encourages adults to view children as assets—as investments—that typically deliver long-term benefits in the form of old-age economic security.

Now, obviously, there is more to life than material well-being, and far more to childrearing than economic considerations, but the important point here is that there is an inherent logic and sustainability to the natural economy. Indeed, from an economic perspective, the care and provision that adult children offer their dependent parents in old age is, in effect, payback for the care and provision these same parents previously gave their children when they were young. In economic terms, this transfer of resources from adult children to their parents can be thought of as a form of "debt repayment."

Moreover, the inherent logic and sustainability of the natural economy can be seen in the fact that its impetus to "be fruitful and multiply" is not without restraint. Yes, children generally prove to be net assets; and, yes, the payoff for having a large family is typically greater in agrarian societies where children can work at a relatively young age than in industrialized societies where childhood dependency lasts longer. But the natural economy does not reward reckless or indiscriminate childbearing. Indeed, for children to give their parents economic security in old age, they must grow up and become productive themselves.

So, the natural economy has an inherent concern for *how well* children are raised, not just *how many* children are raised. And this interest in raising children well isn't just a priority for individual households, who have a personal stake in individual child outcomes, but it is also of some concern to the surrounding community, whose economic health and well-being is affected by aggregate child outcomes.

'Live it Up' Today—and Then Again Tomorrow!

Sadly, the flawed design of the Social Security system disrupted the inherent logic and sustainability of the natural household economy. It inadvertently altered economic incentives by creating a situation where people can "live it up" today on the monies they would have otherwise invested in childrearing, knowing that they'll be able to "live it up" tomorrow on the monies the Social Security system takes from their neighbors' children and transfers to them.

Now, obviously, few Americans approach major life decisions with such crass attitudes. And it would be a mistake to cast aspersions on childless adults as a group—or to lionize parents indiscriminately—since "parenthood" doesn't always correlate with "responsible adulthood."

It would also be a mistake, however, to pretend that people do not respond to economic incentives. And over the last 75 years, the incentive structure of the Social Security system has gradually undermined the economic well-being of people who take parenting responsibilities seriously.

Like a river current that is almost imperceptible at first but gathers strength over time as it merges with other forces flowing in the same direction, the parenting penalty in Social Security has combined with larger cultural and technological forces that have facilitated an accelerating retreat from marriage and childrearing.

Evidence of these lifestyle shifts is all around us—delayed childbearing, lower fertility rates, smaller families, more childlessness, more adults living alone, and an aging society overall.

Yet, there need not be a consensus on how to view these lifestyle shifts for us to see the problems with Social Security's design. Put another way, whether one thinks the demographic changes of the last half-century represent progress or regress should be largely irrelevant to policymakers. The goal of government leaders should not be to use public policy to reward or punish people who make lifestyle decisions that policymakers happen to like or dislike.

Just as it would be a mistake for policymakers to try and induce young people to marry or start a family prematurely, it is also a mistake for government leaders to adopt or perpetuate policies that hinder people from marrying or starting a family when they would otherwise do so in a natural economy.

The issue here isn't lifestyle preference. It is fairness. And robbing parents to pay Paul is profoundly unfair.

Running Out of Other People's Children

Most Americans do not spend time thinking about the "parents' penalty" in federal policy—in large part because it is the inconspicuous byproduct of flawed policies rather than a highly overt regulation or tax. Similarly, many public policymakers do not spend a lot of time worrying about the "parents' penalty" because they either like the idea of the state supplanting natural family responsibilities (a view all too common on the socialist/feminist left) or they like the idea of young people devoting more time to the labor market than to children (a view all too common on the corporatist/materialist right).

Yet, when the topic of the "parents' penalty" arises, some try to defend the status quo by arguing that young-to-old transfers of income via Social Security are, in effect, payback for old-to-young transfers of wealth via public education. Since non-parents pay taxes to support public schools populated "by other people's children," it's only right that they should be entitled to receive Social Security transfer payments that the government takes "from other people's children." Or so the argument goes.

The problem with this line of thinking is that it fails to acknowledge a critical difference between old-to-young programs like education and young-to-old transfers like Social Security and Medicare. With education, taxpayers pay for something today that they once received in the past when they were young (leaving no generation shortchanged). But with Social Security and Medicare, taxpayers pay for something today that is, in turn, promised to them in the future.

Yet, this promise—this entitlement—presupposes that subsequent generations will be sufficiently large enough to fulfill all the government's accumulated obligations (to pay all of the previous generation's debts, in other words). And in an age of elective childbearing, in which public policy fails to account adequately for parental investments in childrearing, it shouldn't surprise anyone that American fertility is now well below the "replacement rate" needed to sustain our population. Nor should it surprise anyone that recent U.S. Census Bureau data show that the 65-and-older U.S. population grew by more than a third in the last decade, while the under-18 U.S. population actually shrank in size!

For non-parents, the premise of old age entitlement programs is that there will always be an ample supply of other people's children—whether born in America or born elsewhere and brought to America—to pay for the Social Security and Medicare benefits they have been promised. But as we can see already, and will increasingly see in the future, when central planners "collectivize" or "socialize" Americans' personal resources, disrupting the natural economy and its organic intergenerational ecosystem, problems inevitably arise.

Debts pile up. Taxes become more burdensome. Ordinary people find it harder to "afford" children. The government's promises become increasingly difficult to keep—causing the cycle to repeat again. Debts pile up even higher. Taxes become even more burdensome. Ordinary people find it even harder to make time for children. And at some point, the whole house of cards comes crashing down.

To paraphrase Margaret Thatcher's famous line, the problem with runaway entitlement spending is that eventually you run out of other people's children (to pay for everything).

No Picnic for Non-Parents

Sadly, the costs of our flawed policies are not borne by parents alone. They can be seen in the unrealized hopes of many thirty-something women who had always imagined that they would marry and raise a family someday and now find themselves in what looks like an increasingly futile race against nature. And they can be seen in the increasingly lonely lives of many elderly Americans, who are cut off from the rich web of intergenerational familial relationships that often give meaning to one's twilight years.

Moreover, the federal government's disruptive interference in the natural economy doesn't just affect family life, but it affects community life as well. In the natural economy, parents and non-parents alike have a powerful incentive to participate in "mutual aid" arrangements with neighbors, friends, churches, fraternal organizations, and the like. Historically, these formal and informal voluntary associations have provided a valuable "safety net" for widows, orphans, and others needing assistance in hard times. What's more, these interpersonal webs have often offered far more than just economic provision, satisfying deeply human longings for meaningful personal relationships and enduring social bonds.

Once again, the issue here isn't whether one should like this mutual aid association or dislike that one. People will always have different preferences about such things. The issue here is one of government interference. When public policymakers seriously undermine natural economic incentives, social bonds inevitably fray. Organic relational ecosystems get disrupted. And human beings find themselves in an increasingly atomized society disconnected from other people—and from the natural rhythms of family and community life they would otherwise know.

Restoring Equilibrium

For policymakers looking to help restore the equilibrium of the natural economy, it might seem that the surest way to eliminate the parents' penalty in federal law would be to simply get rid of the Social Security system. And surely this is what many libertarians dream about at night. But Social Security has long been viewed as the "third rail" of American politics; and politicians who have attempted to replace or eliminate it have rarely survived in office to tell about it.

Part of the reason that Social Security reform is so fraught with political danger is because it has always been sold to the American people as a collectivized retirement savings program from which "you can one day get back what you've (involuntarily) paid in."

This is, of course, a fiction. There is no vault in Washington that one can visit and view all their carefully saved contributions available for future disbursal. Nor is there even a metaphorical "lockbox" (to use a term borrowed from a long-ago Presidential candidate) that actually protects Social Security "savings" for later use. Yes, there is a separate accounting system for Social Security; and, yes, there is at least some good-faith effort to try and maintain sufficient resources to balance the system's books over time. But tax revenue is fungible; and the solvency or insolvency of the Social Security system is in many ways irrelevant so long as the rest of the government's accounting books are severely out of balance.

Whether federal debt shows up in this column or in that column, the net effect is the same: future taxpayers (i.e. somebody's children) get stuck with a huge bill. And not only do they get stuck paying for today's deficit spending, but they also get stuck paying for all the future unfunded obligations owed to dutiful citizens who organized their old age retirement plans around the Social Security system's promises.

So, the "parents' penalty" in federal law isn't merely a problem confined to Social Security and other old-age transfer programs. In many ways, the "double burden" that Social Security imposes on parents is just the tip of the iceberg—since all federal government deficit spending assumes that there will be a sufficient number of "somebody's children" to pay off all the debts being passed down.

Thinking of these issues in broader terms can be helpful, because the best remedy for counterbalancing the "parents' penalty" in federal law is not found within the framework of the Social Security system. As we are about to see, it involves a relatively simple federal policy that has elicited support in the past from serious-minded leaders in both major political parties.

Raising the Child Tax Credit

In 1991, the bipartisan National Commission on Children issued a report entitled, “Beyond Rhetoric” that had as its central recommendation the creation of a new $1,000 per-child tax credit in the federal income tax code. Headed by former Sen. Jay Rockefeller (D-WV), the Commission included a number of distinguished public policy leaders, including Kay Coles James who is now the president of the Heritage Foundation.

Perhaps no one influenced the Rockefeller Commission’s work more than Allan Carlson, a social and economic historian who then headed the Rockford Institute. Carlson had a long and distinguished career studying Sweden’s “family policy,” from which he concluded that even well-intentioned government efforts to “help” families almost always undermine their autonomy and self-sufficiency and lead to greater government dependency and poorer child outcomes.

Given this, Carlson urged the Rockefeller Commission to call for Congress to strengthen the economic well-being of families by allowing taxpayers with children to keep more of the money they earned. Accordingly, the Commissioners embraced a proposal to create a universal $1,000 per-child tax credit that would help parents offset some of the basic living expenses associated with raising children.

Notably, these basic living expenses (food, clothing, shelter, etc.) are the same necessities that the New Dealers envisioned Social Security recipients using their monthly checks to cover. As such, the child tax credit can be thought of as a counterweight designed to offset the “parents’ penalty” in Social Security. That is, in the same way that the Social Security system imposes a heavier burden on parents than non-parents to ensure that the elderly have sufficient income to cover some basic living expenses, the child tax credit lightens the tax burden on parents (vis a vis non-parents) to make it easier for parents to meet some of the basic living expenses of raising children.

That the child tax credit is a counterweight to Social Security’s “parents’ penalty” is an extremely important idea because, over the years, libertarians have often dismissed the need for such a credit, arguing that children give parents “psychic income” (an economist’s way of saying “joy in childrearing”) presumably commensurate with the out-of-pocket and opportunity costs parents incur.

Now, if the Social Security system did not exist, and the federal government were not depending on someone’s children to pay for all its unfunded liabilities, the libertarian argument against the child tax credit would have greater sway. But in a world where parents are making a “double contribution” to Social Security, the child tax credit is very much needed to restore the balance found in the natural economy.

Of course, to serve this purpose, the counterweight must be of proper size. And while it is laudable that the GOP-controlled Congress created the child tax credit in the mid-1990s—and that the subsequent Bush and Trump Administrations successfully championed meaningful increases in this credit—the child tax credit today is still only $2,000 per child. And this is a far cry from the $4,800 it would need to be if it were to fully offset the Social Security system's "parents' penalty," according to Ramesh Ponnuru of the American Enterprise Institute in 2017 testimony before the U.S. Senate Finance Committee.

Starting with Baby Steps

Given the huge gulf between the current child tax credit ($2,000) and the amount now needed to offset the "parents' penalty" (nearly $5,000), some public leaders have suggested that Congress ought to consider an incremental strategy for filling this hole, beginning with families of newborns.

Interestingly, there is a little-known precedent for this. Back in the late 1980s and early 1990s, a group of Washington scholars familiar with Allan Carlson's work convinced the George H.W. Bush Administration to include a "wee tots" tax credit (covering newborns) in a bipartisan economic package that the White House negotiated with Congressional leaders. This provision, which provided modest relief to new parents, was designed so that it could be expanded in size—and in ages covered—in subsequent years.

Unfortunately, the "wee tots" tax credit survived only a short time, as Congressional Democrats repealed it soon after President Clinton was elected in 1992. But its brief life not only set a precedent for the larger and more expansive child tax credit that the GOP-controlled Congress passed once it gained power, but it also set a precedent for how lawmakers today can eliminate the "parents' penalty" over time.

Last year, U.S. Senators Bill Cassidy (R-LA) and Kyrsten Sinema (D-AZ) introduced a piece of legislation that offers parents the opportunity to receive a $5,000 child tax credit in the year of a child's birth. The legislation is designed to address growing interest in paid family leave at the federal level. And as a paid family leave proposal, the Cassidy-Sinema proposal deserves considerable and serious debate.

Indeed, unlike a paid family leave proposal introduced by U.S. Senator Kirsten Gillibrand (D-NY), the Cassidy-Sinema plan avoids placing new burdens on employers and new limits on workers. And it offers short-term economic relief to *all* families with newborns, regardless of how these households choose to organize their work and childrearing responsibilities. As such, the Cassidy-Sinema plan maximizes the economic freedom of new parents, enabling them to determine with their spouses (and their employers) what post-natal arrangement would work best in their particular situation. This sort of flexibility and autonomy is far better than a one-size-fits-all federal mandate handed down from Washington.

So, as a paid family leave plan, the Cassidy-Sinema proposal has much to commend it.

As a plan to expand the child tax credit, however, the Cassidy-Sinema proposal falls short. Curiously, what it offers to parents in year one—per-child tax benefits above the usual $2,000—it takes back in the years that follow. Specifically, for families taking the $5,000 newborn tax credit, the proposal reduces the child tax credit from $2,000 to $1,500 in each of the six years that follow.

Not only does this peculiar "payback" provision add needless complexity to the tax code, but it turns what could have been a robust tax relief package for new parents into little more than a short-term loan. To be sure, this short-term loan would be helpful to many parents in the weeks and months following the birth of a child; but the Cassidy-Sinema plan ultimately does nothing to eliminate the overarching "parents' penalty" in federal law.

Put another way, Cassidy-Sinema gets the first year right: $5,000 in per-child tax relief. But it bungles the years that follow. Rather than requiring parents to "pay back" their newborn credit in subsequent years, policymakers ought to do the exact opposite. They ought to maintain the $5,000 credit for every subsequent year, increasing eligibility up the age scale a year (or more) at a time, so that the full $5,000 child tax credit remains in place from birth to adulthood (age 18) for the cohort born in the initial year—and for all birth cohorts in the years that follow.

That would seem to represent one of the best ways to eliminate the "parents' penalty" incrementally over time.

Subsidizing Able-Bodied Retirement?

The Cassidy-Sinema plan is not the only paid family leave proposal that has a payback provision. Several years ago, Sen. Marco Rubio (R-FL) introduced a very novel leave plan that would allow new parents to receive short-term paid family leave payments from the Social Security system in exchange for an agreement to work longer in their twilight years before qualifying for retirement payments. In effect, the Rubio plan allows new parents to "borrow" time from their future retirement to use now to bond with their babies.

The Rubio plan's payback provisions have several virtues. First, they appropriately link federal policies surrounding the beginning of life with those surrounding the end of life. As such, they encourage a much-needed reappraisal of the way in which Americans organize work-and-family activities over the life cycle. Does it make sense that many couples devote more (combined) hours to paid work when children are young than they do when they are empty nesters enjoying an early retirement? Many would say it does not—and that this is yet another illustration of how the "double burden" that parents carry under federal law undermines the well-being of families with young children.

Second, the Rubio plan's payback provisions point to another problem in the design of the Social Security system, which is that the age of eligibility for retirement benefits has not kept pace with increases in life expectancy. Whereas average life expectancy was 67 years when Social Security was created, it is now almost 80. This means that many Americans now enjoy a twilight period of *subsidized* able-bodied retirement that one cannot imagine occurring in the natural economy.

Think of it. What father would ever write the following letter to his adult children?

Dear Kids:

Today, I am turning 65 and even though I am able-bodied and still fully capable of supporting myself, I'd like to ask each of you to start sending me a monthly check, equal to roughly one-seventh of your earnings, so that

I can quit my job and have more time to hang out with my buddies at Leisure World.

Sincerely, Dad

It's hard to imagine any self-respecting man writing such a letter. Yet, this is essentially what the Social Security system does every payday. It asks—nay, requires—adult children to *subsidize* the able-bodied early retirement of people from their parents' generation (most of whom are strangers). And it does this not because the New Dealers set out to completely reorient work-and-family patterns over the life cycle. It does this because well-intentioned government policymakers failed to consider the Law of Unintended Consequences.

To its credit, the Rubio plan subtly pushes back against these economic distortions, allowing new parents to devote more time to family responsibilities when children are young and more time to gainful employment when children are grown and the nest is empty.

Yet, even though Rubio's novel proposal addresses these economic distortions, some policy leaders do not like it because it places additional short-term stress on an already fragile Social Security system. Along these same lines, some believe that working within the framework of the Social Security system severely limits the expandability of economic benefits to families with children. Whereas a $5,000 tax credit for newborns could be easily expanded up the age scale over time, any similar benefits working within the Social Security framework would be difficult to expand to a wider pool of parents.

Broadening the Conversation

Both the Rubio plan—and the Cassidy-Sinema plan—offer Congress a far better paid family leave policy than the Gillibrand proposal. Together, they have sparked a very fruitful conversation that needs to continue—and to grow.

Indeed, the conversation about how best to help parents in the first year of a child's life needs to be considered within the broader context of how best to eliminate the "parents' penalty."

Interestingly, it may very well be that the best solution to this broader question is one that somehow combines elements of these two laudable paid family leave proposals. Specifically, Congress ought to consider adopting a modified version of Cassidy-Sinema's tax benefits (a universal $5,000 child credit beginning at birth and continuing, year after year, until the child reaches age 18). Additionally, Congress ought to consider adopting a modified version of Rubio's payback plan (a gradual across-the-board increase in the Social Security retirement age that gives future recipients sufficient time to adjust their life plans).

Taken together, these two policy ideas not only would strengthen the economic well-being of families with children, but they also would eliminate the pernicious "parents' penalty" that has been undermining the natural impetus to invest in childrearing for far too long.

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