Intergenerational Wealth Transfer & The Politics of Youth

Joseph Malchow
Directed Research
John B. Taylor
Michael McConnell
Stanford Law School
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Inside an elite Washington P.R. firm.

"Terry, Terry, Terry, we're simply making the point that nonproductive longevity only consumes resources that would be better spent on younger generations, who are currently being crippled with passed-along debt as a result of—"

"Thank you, Ayn Rand."

"Okay." She smiled. "So, no problem?"

Terry gave her a worried look. But on she went. "This campaign is about self-indulgent aging Boomers who are wrecking the U.S. economy and economically enslaving the next generations. Will you please just chill?"

"This one . . ." He clicked on another slide. Up came an image of a group of gaunt, hungry-looking youths staring hollow-eyed at a large empty bird's nest. The caption read: "What kind of nest egg will you leave them?"

"I guess it works," he said. "But kind of a downer, though."

Two days later, she burst into his office with the laptop, smiling like a cat that had just swallowed an entire cage of parakeets. He hadn't seen her look this happy—ever.

She put the laptop in front of him, fired it up, and clicked on the "Start Slideshow" icon.

Terry watched.

Cass had hired a computer graphic artist to duplicate Norman Rockwell's sliced-bread, rooster-crowing, soda-fountain, friendly-cop, Thanksgiving-turkey America—only on the theme of Voluntary Transitioning.

The first slide showed a man and wife in their seventies, holding hands, smiling as though they were embarking on an ocean cruise. They were walking into the doorway of a homey, gingerbread-style house whose address might be 15 Maple Street. Above the doorway was a bright yellow sign that read, VOLUNTARY TRANSITIONING CENTER—WELCOME, SENIORS!

The next illustration showed a pair of perfectly healthy-looking people in their mid-sixties thumbing their noses at a frustrated-looking Grim Reaper. The caption read, WE'LL DO IT ON OUR TIMETABLE, THANKS—NOT YOURS!

There were half a dozen illustrations. The last one showed an elderly man in a comfy, fluffy bed attended by an attractive and shapely nurse dressed in a traditional starched uniform. The man was smiling sleepily. The nurse was smiling back at him as she adjusted the valve of an IV drip running into his arm. The caption read, OFF TO A HEAVENLY REST!

Terry looked up at Cass, who was still beaming.

"Well?"

"I'm speechless."

"Aren't they fabulous?"

Adapted from *Boomsday* by Christopher Buckley.
Hachette Book Group, New York, N.Y., © 2007.

Summary

The United States government is occupied in nothing so impactful as the redistribution of capital from the disfavored to the favored. The contemporary argot focuses on discussing politics as though it was most naturally sliced by income level—"the 99%," "the 1%," "the 47%"—leading to a misguided focus on wealth disparities writ large.

This paper proposes that it is more relevant to view redistribution, the chief object of modern government, from the perspective of young and old. From taxation to student debt to the national debt, 21st century American life increasingly involves moving capital from the young to the old. Youth are disengaging from politics at a fast clip, as the retired and retiring gain greater potency. Policies that imply the moral superiority of stasis and comfort, as opposed to growth and dynamism, are becoming the norm. The result is a flaccidity of youthful energy that the United States has never suffered in its history.

Introduction

On January 1, 2007, Kathleen Casey-Kirschling arrived, healthfully and happily, at the age of 66. That day she filed for Social Security benefits—the first of the baby boomers, more or less, to do so. Kathleen told ABC News: "It's a great feeling to know that after all these years of working and seeing that taken out of your check that actually you're getting it back."[1] There are 80 million Americans born between 1946 and 1964 in line for payback. Social Security, with some infamy, has an demographically infelicitous future. In 1944, 44 paid in for every 1 receiving payouts. In 2007, when Kathleen received her first electronic funds transfer from the federal government, 3 paid in for every 1 receiving. There are more recipients of Social Security payments than there are Greeks.[2] The ratio will reach 2 payers for every 1 receiver in 2040.[3] New people paying into the system are few for a multitude of

[1] "The First Baby Boomer Collects Social Security," ABC News, Oct. 15, 2007, http://abcnews.go.com/WN/LifeStages/story?id=3732745&page=1.

[2] ; U.S. Disability Beneficiaries Exceed Population of Greece, CNS News, May 7, 2013, http://cnsnews.com/news/article/10962532-us-disability-beneficiaries-exceed-population-greece

[3] Coping with the Demographic Challenge: Fewer Children and Living Longer, by Gayle L. Reznik, Dave Shoffner, and David A. Weaver, Social Security Bulletin, Vol. 66 No. 4, 2005/2006.

reasons, among which is the American birthrate, freshly ebbed in 2011 at its lowest-ever level of 31.6 per 1,000 people.[4]

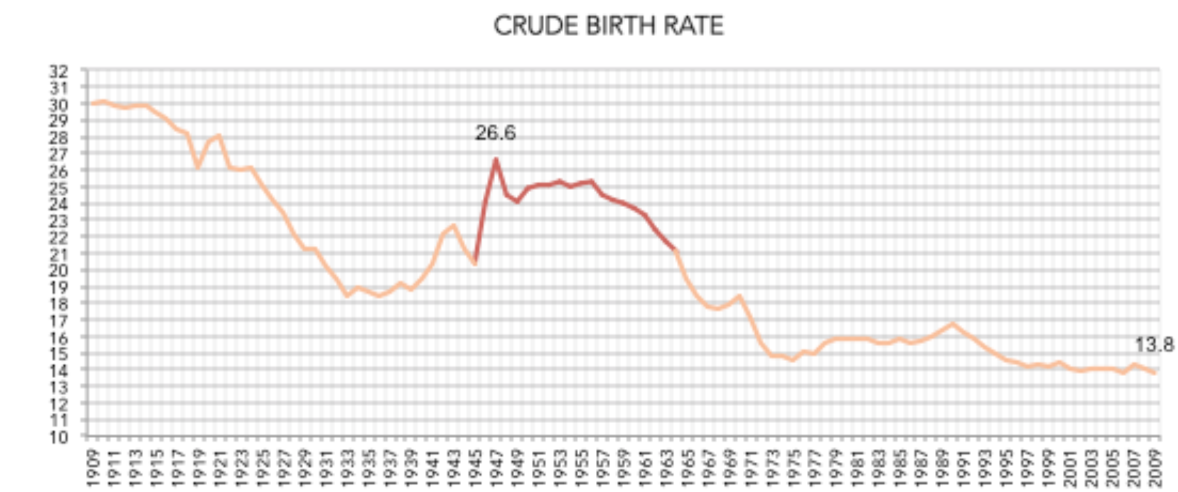
In Christopher Buckley's 2007 novel *Boomsday*, the protagonist, 29-year-old Cassandra Devine, works for an elite and stealthy public relations agency in Washington, D.C. Aside from her work for the Canadian Mink Ranchers Association, Cass's extracurricular obsession is the growing feeling that her generation is actively financing the cushy retirements of the baby boom generation, while her prospects for amassing a stock of capital all her own were simultaneously dimming. Her idea? *Transitioning*—a national P.R. campaign that would encourage baby boomers to voluntarily 'transition' themselves into oblivion by age 70 in exchange for complimentary Botox injections and a pass on the Estate Tax. It becomes part of the next presidential election, and brings together in opposition two unlikely bedfellows—the Christian Right, which considers transitioning inhumane; and AARP members, who consider it all very distasteful, especially when young protestors arrive on the greens of their golf resorts. But the swells of youth—now animated, not as so recently in France, by petty thievery, but by opposition to government-sanctioned intergenerational transfers—overwhelm the "wrinklies," and a revolution is born.

It is young versus old in a crusade for the future of the United States. The curious thing is that the problem in Buckley's novel is *genuine*. Yet, as General Lamarque might say, *Ou sont les révolutionnaires*? There are no barricades in the streets.

It is an abiding fact of American political life that voters, politicians, and the press do not think principally in generational terms, preferring paradigms connected to

[4] U.S. Birth Rate Falls to a Record Low; Decline Is Greatest Among Immigrants, Pew Social Trends, http://www.pewsocialtrends.org/2012/11/29/u-s-birth-rate-falls-to-a-record-low-decline-is-greatest-among-immigrants/.
N.B. This figure is the "birth rate," which is as distinct from the crude birth rate, the traditional and longest-standing dataset provided by the CDC. Notably and without explanation, the CDC's annual updates on births ceased to provide crude birth rate (CBR, which is the number of live births in a year divided by the person-years lived by the population over that year) starting with the 2010 data, and began providing instead the general fertility rate (GFR, which is the number of births in a year divided by the number of women aged 15-44, times 1000.).

ideology, faith, geography, race, and sex. In fact it was the baby boomers themselves who lately fashioned the practice of calling 9 to 12 year birth segments by the name "generations," fastening to these generations—X, Y, Me, Millennial, &c.—defining characteristics, proclivities, virtues, and vices; before 1958 the Oxford English Dictionary records almost no examples of this use of the word.[5] Before the boomers' coinage, the prevailing meaning was simply "ancestry, lineage, descent"—a way to denote the conceptual distinction between father and son, son and grandson.



Data: Center for Disease Control

Here philology has something to say to us; the very evolution of the term reveals all. Prior to the 1960s, age cohorts in the abstract meant little. The predominant organizing principle was family life. One's experience of the "next generation" was in the context of siring a family—and generationality was therefore defined by mutual interest and a bound destiny, not to mention love. The change in usage in the 1960s, as the Baby Boom was underway, reflects the destruction of a vertical society—a million families lined up astride—and its replacement with a lateralized society

[5] "Generation," Oxford English Dictionary. (OED, Third Edition, September 2009).

where the mere happenstance of birth year signifies strongly in one's self-identity. The dramatic decline in the popularity of marriage maps to this change.[6]

But where is the revolution? Youthhood, for good or for ill, has proven a rallying principle for major political inflections before: France 1832, Cuba 1959, China 1989, Libya 2011. In the United States, however, youth tend to unite briefly for ad hoc social movements, and then toss the coeval aside as an organizing concept. But the major issues facing the American republic in its third century are steeped in generational politics that are hardly discussed. This paper will define and analyze issues driven by intergenerational politics, review the 2012 presidential election, which focused largely on long-term economic concerns bearing principally on the young, the behavior of young Americans in that election; and finally consider the future.

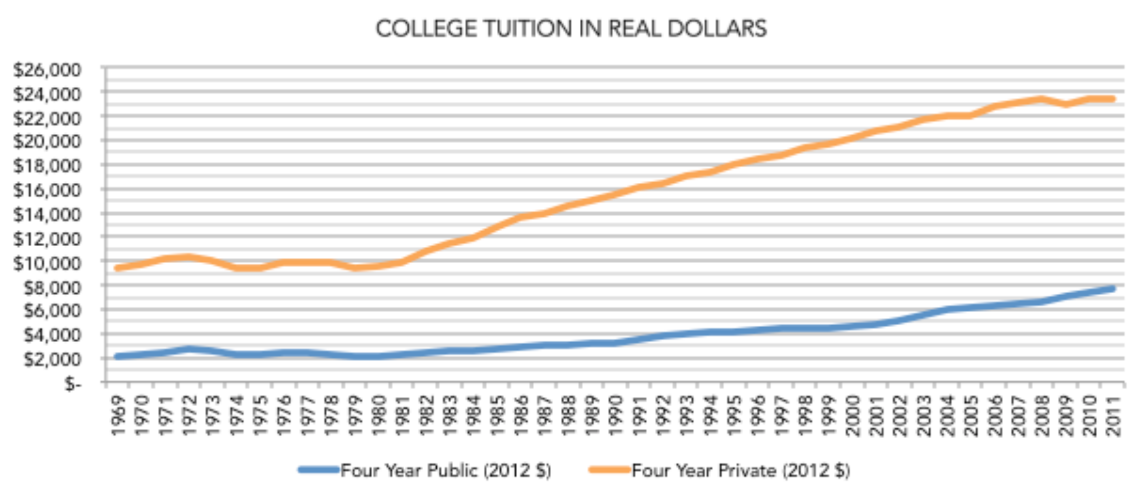
An Affordable Atelier in Riverside Drive

The New York Times in early 2013 published a routine article on the latest pricing outrages in New York City real estate. Titled "What Is Middle Class in Manhattan?," the piece made a familiar point: in a place like New York, an income that is objectively middle class elsewhere becomes decidedly plebian. The average Manhattan rental: $3,973, $2,800 more than the average U.S. rental. Manhattan's 1%: those earning over $790,000. ($380,000 for the nation at large.) The piece then rehearsed a few of the exceptions to the distinct unaffordability of a pleasant life in New York: there are, for example, the Craigslist conjurors who pounce on rent-controlled units the moment they become available. The other example: a professor.

[6] See *Coming Apart: The State of White America, 1960–2010*, by Charles Murray, New York: Crown Forum/Random House, 2012. "Starting around 1970, marriage took a nosedive that lasted for nearly twenty years. Among all whites ages 30– 49, only 13 percent were not living with spouses as of 1970. Twenty years later, that proportion had more than doubled, to 27 percent— a change in a core social institution that has few precedents for magnitude and speed." 158.

> Maya Tolstoy, an associate professor at Columbia…lives with her 9-year-old son in a small two-bedroom apartment in a doorman building on Riverside Drive. Because her building is owned by Columbia, her rent, about $1,800 a month, is manageable on an associate professor's salary, which averages about $125,000. A similar market-rate apartment on the Upper West Side costs about $6,000 a month, according to a monthly report compiled by MNS, a brokerage firm.
>
> "I think it's much tougher for people with my income to survive in Manhattan without subsidized housing," she said. "I am very lucky to have it."[7]

Maya, of course, does not work for a traditional business. Her employer, Columbia University, charges $58,744 per year to the undergraduates she teaches.[8] Only Sarah Lawrence and N.Y.U. are pricier. Students line up to assume non-dischargeable debt in order to pay that price—presuming they are admitted. If they instead attend the school ranked 30 spots below Columbia in U.S. News & World Report's rankings, the College of William and Mary, they are billed $48,256 per year.[9] Maya is "lucky," but her luck comes in the form of transfer payments from indebted young people through the intermediary of the university.



Data: Institute for Education Sciences

[7] "What is Middle Class in Manhattan?," A. O'Leary, January 18, 2013, The New York Times.
[8] See http://www.college.columbia.edu/bulletin/feesandexpenses.php
[9] A mere 18% discount for a tiny fraction of the educational prestige. See U.S. News and World Report 2013 National University Rankings, http://colleges.usnews.rankingsandreviews.com/best-colleges/rankings/national-universities/spp+50; College of William and Mary Tuition and Fees, https://www.wm.edu/admission/financialaid/tuition/index.php.

Those students are risking long-term structural instability to finance incremental improvements in the living quality of their professors. Between 1970 and 2010 the compound increase in college tuition was roughly 1,600%, outpacing inflation more than three times over.[10] Over the same duration, educational productivity, defined as degrees conferred per real dollar of tertiary educational spend, has decreased, with productivity at less than half of what it was in 1970.[11] Maya's Riverside Drive apartment, in other words, does nothing to educate students—but it certainly costs money. Outstanding student debt surpassed $1 trillion in late 2011, and there is now more outstanding student debt than credit card debt.[12] A bubble appears to be forming in that market, with insatiable investor desire (fired by low yield in traditional precincts) driving monthly average yields on floating-rate student loans down to 1.4791%, a low, as recently as March 2013.[13]

The Culture of Transfers

The Riverside Drive apartment is one small example of a larger theme: *the culture of transfers*. In ways large and small, public and private, by law and by force of social expectation, the young transfer capital to the old.

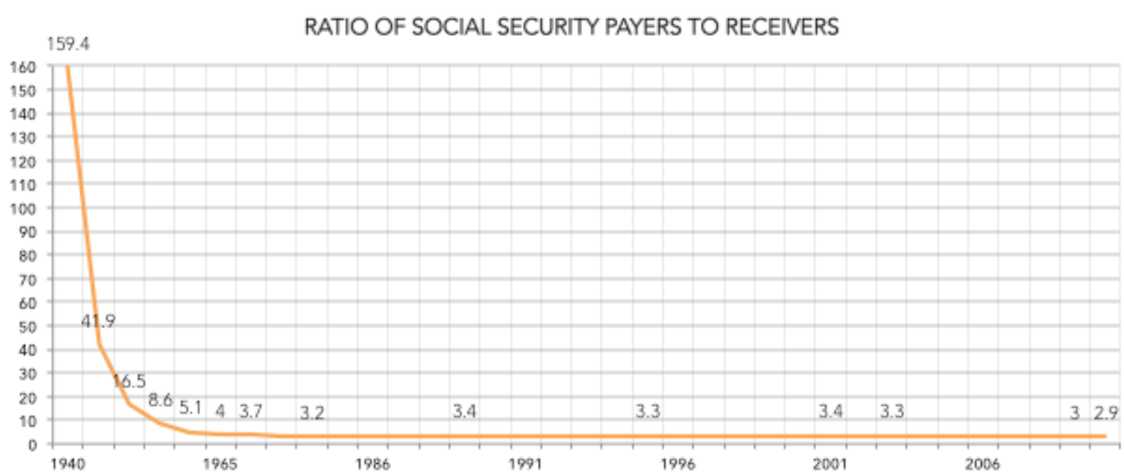
Young Americans can generally be counted upon to vote for higher marginal taxes—it seems the kind thing to do, and besides, the folks at those celestial tax levels are 45-year-olds, virtually alien to the rising generation. But the young seem rarely to consider the sheer totality of the progressiveness of modern American life. Progressivity exists in the tax code and in many other areas of contemporary life. This paper will discuss this theme as applied to several policies, and then propose a

[10] National Center for Education Statistics, http://nces.ed.gov/fastfacts/display.asp?id=76.
[11] Addressing the Declining Productivity of Higher Education Using Cost-Effectiveness Analysis, D. Harris, American Enterprise Institute, April 2013. http://www.aei.org/files/2013/04/11/-addressing-the-declining-productivity-of-higher-education-using-costeffectiveness-analysis_083908491684.pdf.
[12] "Mounting Obligations," chart, The Wall Street Journal, May 10, 2013. http://online.wsj.com/article/SB10001424127887324059704578471223436096876.html.
[13] "Student-Loan Securities Stay Hot," Simon, R., et al., The Wall Street Journal, March 3, 2013.

result: that for young Americans, no matter how industrious, policies have created an existential serfdom, wherein young Americans are denied the opportunity of truly working for themselves. Instead, they are obliged at great expense to tithe the retiring generation before they set about building an economic life of their own. And they are reacting rationally—by withdrawing.

Social Security *&* Medicare

Although our Kathleen Casey-Kirschling was the first of the baby boomers to collect a Social Security check, she was certainly not the first beneficiary of that program. Payments out of Social Security began in January 1940. The first recipient of a Social Security check was Ida May Fuller of Ludlow, Vermont. She worked for three years under Social Security, being taxed a total of $24.75. She retired on November 4, 1939. Her first monthly check, bearing the serial number 00-000-001, was in the amount of $22.54. By the time she died Ida May Fuller had collected $22,888.92[14] in Social Security benefits.[15]



Data: Social Security Administration

[14] N.B. $22,888.92 in 1945 dollars is $298,781.51 in 2013 dollars.
[15] "Historical Background and Development of Social Security," U.S. Social Security Administration, http://www.ssa.gov/history/briefhistory3.html#idamay.

Kotlikoff and Burns call this “a six-decade-and-counting Ponzi scheme. It takes ever larger sums from the young and gives them to the old. Each young generation is induced to participate in the chain letter with the promise of having its turn, in old age, to indenture the young to ever higher payments to the old. And because each generation pays when young, it feels entitled to take back when old without bothering to ask whether what it's taking back vastly exceeds what it put in…”[16]

The trouble here is that modern youth are not “induced” to participate in Social Security. The law forces them to participate, to be sure. But inducement suggests persuasion. And the young and energetic in America, even those with a passing acquaintance with politics and economics, possess a realistic view of the Social Security program. Only 22% of Americans 18 to 34 responded 'yes' when asked “Do you think the Social Security system will be able to pay you a benefit when you retire?” An astounding 76% responded 'no.'[17] So incredulous are the young that 86% of “Millennials” (defined by Pew as those born from 1980 to 1995) would like to divert their contributions to Social Security, paying instead into private accounts. Fully three-quarters of all voters under 35 thus see Social Security not as a deferred annuity but as an exaction—a transfer to the old.

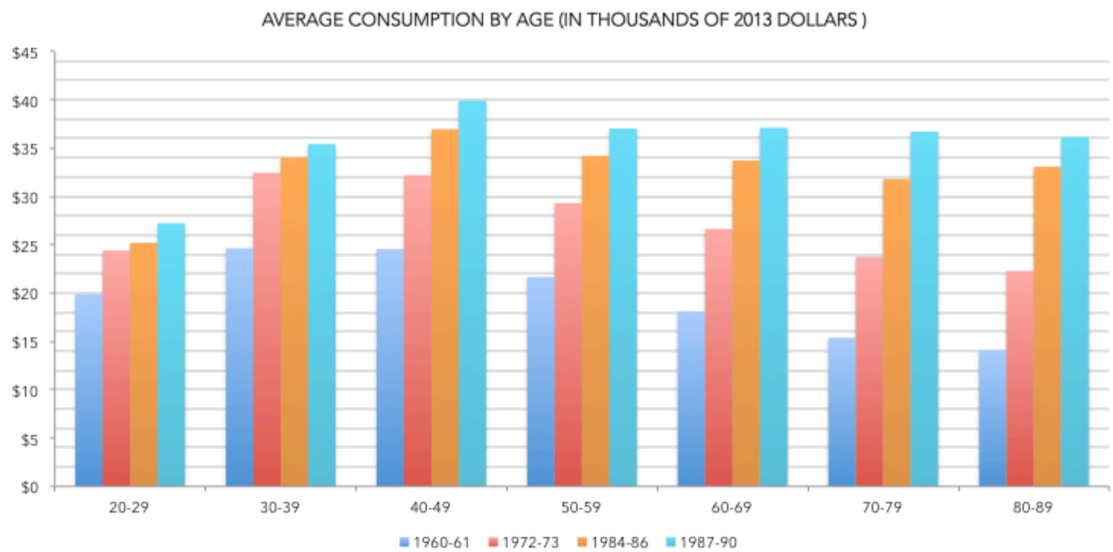
Meanwhile, at the other end of the transom, the life of the Social Security *recipient* looks to be improving. By all accounts the older segment of the American population, once upon a time the most frugal, is rapidly becoming the most prodigal.

By 2010, benefits (Social Security, Medicare, and Medicaid) paid to each old American (for these figures, 65 and up) reached 72% of per capita GDP. That figure was just 41% in 1970. The growth in the underlying per capita GDP was substantially less. So recipients of intergenerational wealth transfers aren't just living better lives because of economic growth and technological innovation—they are being

[16] The Clash of Generations, Kotlikoff, L., Burns, S., 2012, MIT Press, 4.
[17] “Six in 10 Workers Hold No Hope of Receiving Social Security,” Gallup, July 20, 2010, http://www.gallup.com/poll/141449/Six-Workers-Hold-No-Hope-Receiving-Social-Security.aspx.

transferred increasingly more in benefits to increasingly approximate the life of the middle-career working American—despite this transfer becoming less financially and demographically feasible.

LIVING RICHLY



Data: National Income and Product Account

As the young are being hallowed out, the old are living better. Faced with increasing wealth siphoned from the young, Kotlikoff and Burns suggest that the old are increasing their consumption. Time was, of course, old age was a period of relative frugality. This was either of necessity or out of desire to preserve wealth within the family. (An instance of intergenerational altruism which may no longer exist.) The evidence for rising consumption habits of the old is born out in the data. For any given age, and in line with increasing federal benefits, the old are consuming more per household than in previous generations; and more than in any previous generation, the old are a larger share of consumers than the young.[18] What's more,

[18] It was not immediately evident how to normalize this datum for the general increase in population age.

even as benefits paid to old Americans rise, as does consumption, the 'spread' between benefits and consumption is narrowing, suggesting that with each passing year old Americans are more and more receiving and spending all of their benefits. Transfers to old Americans must eventually lose the euphemistic prefix "supplemental," to be replaced by "elemental."

To show the change in consumption patterns in different periods of life, Gokhale, Sabelhaus, et al., impute in-kind consumption (Medicare, Medicaid, and others), isolate different age brackets within households, and allocate consumption accordingly. The authors originally set out to explain the decline in the U.S. savings rate in the postwar period. What they found is that "[t]he decline in U.S. saving can be traced to one major factor: The redistribution of resources from young and unborn generations with low or zero consumption propensities toward older generations with high consumption propensities."[19] The data bear this out: seniority, from about 70 to 89 years old, was once rather ascetic, pleasure coming from family and friends; it is now a high consumption propensity period of life, and this appears to be fully ascribable to transfers effected by government.

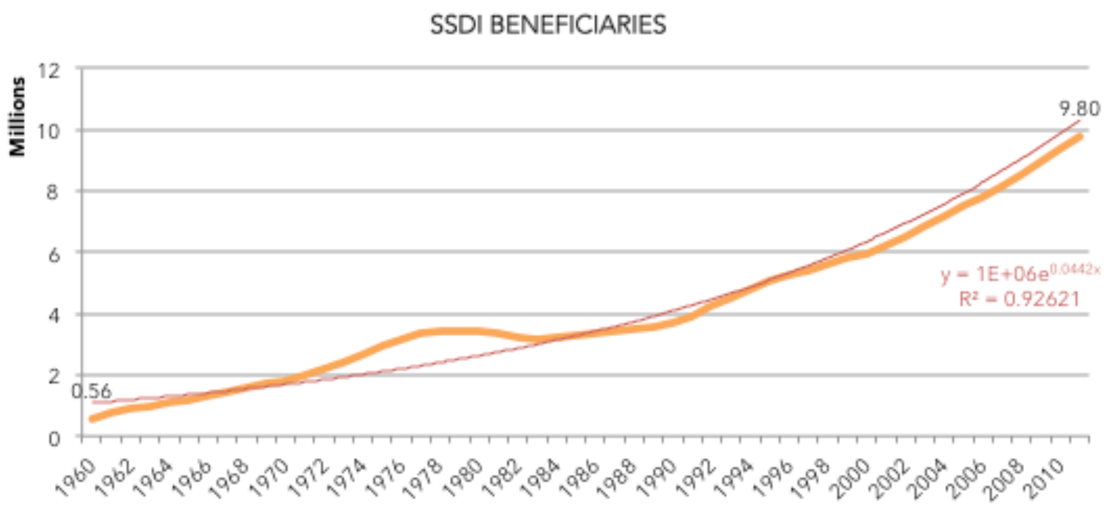
Because Medicare is one significant component of the growing transfer of capital form young to old, the natural responses is to point up the years of crises in "elder poverty" which made news in the 1960s. Much of the growth in transfers to the old described above, of course, comes from Medicare, Medicaid, and other health spending. These benefits to old Americans from 1990 to 2005 grew 3.4% in real per capita terms, therefore far outpacing economic growth.[20] At the same time, and as

[19] "Understanding the Postwar Decline in United States Savings: A Cohort Analysis," Working paper, Cleveland Federal Reserve Bank, 1995. http://www.clevelandfed.org/research/workpaper/1995/wp9518.pdf?WT.oss=Personal%20Consumption%20Expenditures&WT.oss_r=689

[20] "The Long-Term Outlook for Health Care Spending," Congressional Budget Office, November 2007, Table 2, http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/87xx/doc8758/11-13-lt-health.pdf.

discussed below, risk pools are being deliberately broadened by government in support of a pro-old agenda, to the detriment of the labor market for the young.

DISABILITY

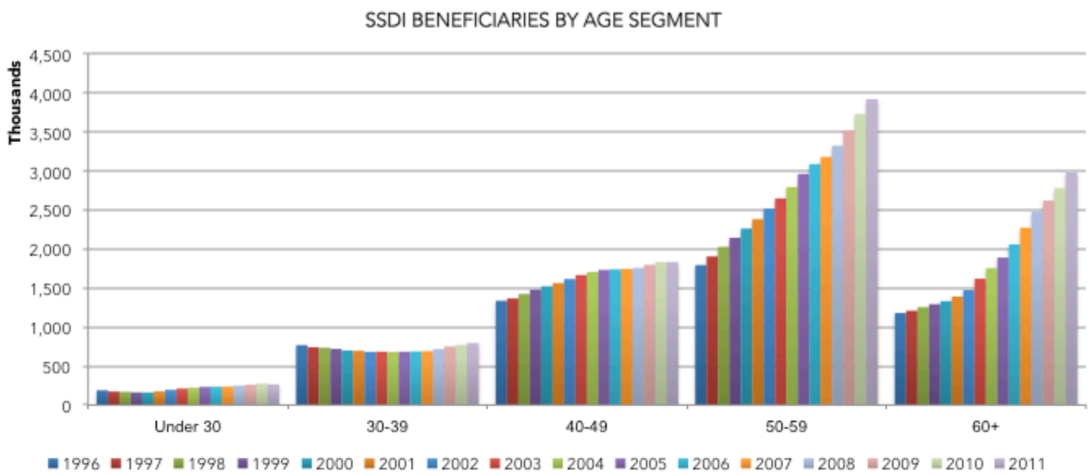


Data: Social Security Administration

As the transfer culture has made work an increasingly unattractive option, the many-layered federal welfare system has confirmed that work is just that—an option. Social Security Disability Insurance is the program that was originally intended to replace income that a laborer could no longer earn himself for the sole reason of a serious bodily disablement. Its growth over the last 25 years has been exponential, despite no significant changes to the program. "Disability" appears to have become, in the eyes of its enthusiastic customers, a second, longer-term form of unemployment assistance. 14 million Disability transfers are made each month. Between 1980 and 2010, the number of beneficiaries increased 187%.[21] The increase graphs similarly for men and for women. Steven Goss finds that "aging"—the notion that the working population is simply getting older (itself nothing to celebrate, as we

[21] The real number of workers paying the SSDI tax over this period increased by only 39%.

have discussed) answers for only 38 of that 187% growth.[22] The rest is a genuine increase in the predilection of the population to use Disability. Although in theory users of the program should not correlate to the overall economic picture, in fact applications to Disability map neatly upon the unemployment figure.[23] Worse yet, since 2001, the figures indicate that Americans on Disability are increasingly not healing. The percent of SSDI recipients leaving the program for no longer evidencing the medical issue that caused them to enter in the first place has, since 2001, declined regularly, to less than 1%.[24]



Data: Social Security Administration

Part of the increasing attractiveness of SSDI is something called a welfare gap—the idea that, if potential beneficiaries could figure it out, one welfare program might be played off another. In fact, old Americans seem to be doing precisely this. For those born between 1934 and 1956, due to increases in Social Security's retirement age, Disability is 33% more generous a benefit than taking Social Security at the earliest possible age.[25] And indeed enrollment in Disability for the 60-64 age group

[22] Steven Goss, Presentation to Social Security Advisory Board, March 8, 2013.
[23] Mark Duggan, Presentation (on file).
[24] Id.
[25] Id.

has risen, from 7.8% in 1989 to 13% in 2011.[26] American boomers are thus seen not only using these transfer mechanisms, but optimizing among them. While medicine has continually advanced, and as work has become less physically taxing, Disability has grown. In 1961, 8.3% of people on Disability were there for "back pain and other musculoskeletal problems." In 2011 the figure was 33.8%, dwarfing all other ailments.[27]

Every age cohort has increased the number of people placed into Social Security Disability between 1996 and 2011, but the strongest growth has come from Americans 50 and up.

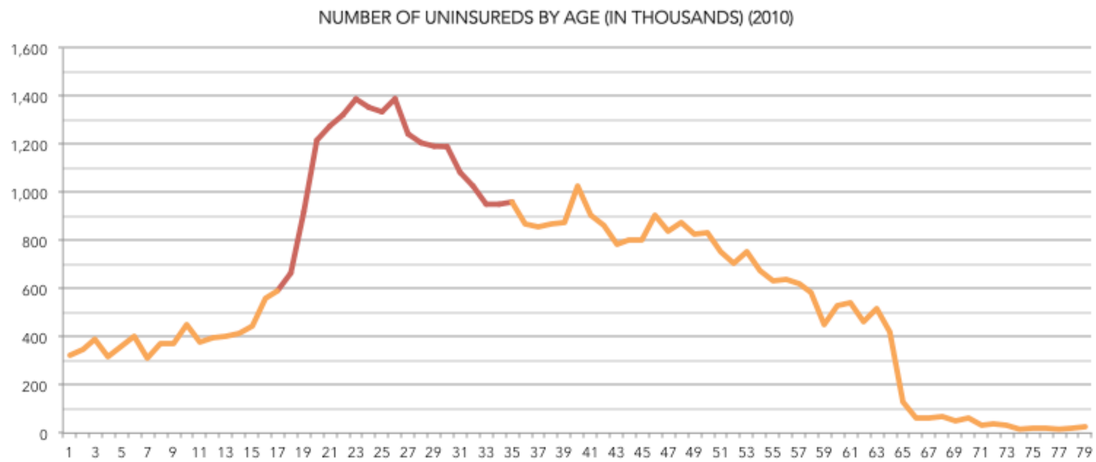
THE AFFORDABLE CARE ACT

The most notable recent advancement in the sub rosa wealth transfer from young to old consists in the Patient Protection and Affordable Care Act of 2010. ACA has already been widely discussed in the literature, so its pratfalls are well known. Generationally, its effects clearly benefit old Americans while penalizing young Americans. The ACA would force 46 million uninsured Americans, most of whom seem to be strategically uninsured, to purchase insurance to cover medicine they will not use while young and healthy. These coerced payments youthen risk pools more than insurance companies could achieve with their actuarial models alone. Minimum requirements increase free cash by making it illegal to offer the low-coverage, low-premium plans that consumers crave. The community-rating requirement disallows carriers from offering discounts to healthy customers.

ACA also further progressivizes the economy of the young by income-testing subsidies for the now-required insurance plans. It is not unreasonable for single young people to be making under 400% federal poverty level (the point after which

[26] Id.
[27] See "Trends with Benefits," Chana Joffe-Walt, http://apps.npr.org/unfit-for-work/.

purchases from the exchanges is no longer subsidized) in their first or second job. Thus ACA constructs yet another welfare cliff—punishing a young person for putting out an erg more productivity. Add this to the income tax consequences, the student loan repayment consequences, and all the rest.



Data: United States Census

The 18 to 35 cohort is highlighted in red. Uninsurance rates peak around 23 or 24, and edge down as maturation causes marriage, family, and the purchase of private insurance. The effect of ACA on the young adult cohort and the prices they will pay for insurance is yet to be seen. Yelowitz constructs a hypothetical healthy 25 year old in New York (where guaranteed issue and community rating is already in effect) and in California, and finds that the median premium in California is 70% lower than in New York.[28] So while the ACA will drive down premia for old Americans, it will commensurately increase them for young Americans. Moving from a 5:1 age-rating ratio (where the most risky consumers pay 5x as much as the least) to a 1:1 ratio would double premiums for youths ages 18 to 24 in order to pay for a 60% discount for those aged 55 to 64.[29]

[28] "ObamaCare: A Bad Deal for Young Adults," Yelowitz A., CATO Institute, November 9, 2009. http://www.cato.org/sites/cato.org/files/pubs/pdf/bp115.pdf.
[29] "Age Rating Under Comprehensive Health Care Reform: Implications for Coverage, Costs and Household Financial Burdens," Linda Blumberg, et al., Urban Institute/Robert Wood Johnson Foundation, October 07, 2009. http://www.rwjf.org/files/research/49470.pdf.

Finally, the hovering specter of the ACA is having a distressing impact on the job market. A plurality of small business owners—48%--reported in April 2013 that ACA would have a negative impact on their business.[30] 52% were willing to say that the ACA will reduce the quality of employees' healthcare. 41% have held off on plans to add new jobs, 38% have "pulled back on" growth plans.[31]

The National Debt

It isn't just the *prospective* insolvency of our transfer programs. When sovereign debt is called or a state loses access to the debt markets, the pain is felt immediately—and felt keenly by young workers. It is a hot-potato situation. The United States' current debt-to-GDP ratio is 104%, well above the Reinhart-Rogoff level (90%) after which debt affects growth.[32] Subtracting interagency debt, the public debt is $11.6 trillion, or 73% of GDP. The fiscal gap—that is, the gap between inflows of revenue expected over time and outflows of payments promised over time—was $60 trillion in 2003 and at the end of 2012 stood at $222 trillion. Increases in these figures are baked in. For one, the Affordable Care Act is still coming online. For another, debt service is now paid at historically low interest rates. Interest paid in 2012 was $359 billion (or, to make a macabre observation, 30% of the 2012 federal budget deficit).[33] The average rate was roughly 2%, but this is an abnormally low rate, as the nearby chart demonstrates. So the national debt is large and growing. The political argument from national debt was once arcane but has become well known: a government must service its debt to remain free from the dictates of its creditors; to

[30] "Half of U.S. Small Businesses Think Health Law Bad for Them," Gallup, May 10, 2013. http://www.gallup.com/poll/162386/half-small-businesses-think-health-law-bad.aspx
[31] Id.
[32] Reinhart, C., Rogoff, K., 2010, "Growth in a Time of Debt," American Economic Review 100, no. 2: 573-578.
[33] N.B. In other words, if we had no national debt to pay, in three and one quarter years the United States would no longer have budget deficit, either. But indebtedness begets indebtedness in an era of slow or no growth.

service the debt, it makes interest payments out of current revenues; current revenues paid to interest means fewer dollars for vital services, or a rising tax burden. The notion that a burdensome national debt might, in the event, cause a 25-year-old to fail to find a job, or deny a 30-year old an evening at a nice restaurant—these notions are not abstract but concrete.

And awareness of debt as a political issue has been rising. Andrew Kohut, president of the Pew Research Center, writes "[i]n my years of polling, there has never been an issue such as the deficit on which there has been such a consensus among the public about its importance—and such a lack of agreement about acceptable solutions."[34] Concern about deficits and debt strong indicate to party affiliate in the United States, in a way that it does not in Europe:

> Concerns over the debt has become a troubling issue on both sides of the Atlantic. However, the politics surrounding it differs in the U.S. A median 81% of the publics in European countries regard the size of the national debt as a major threat to economic well-being; 71% of Americans share that view.
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> But the unease over the national debt is far more likely to be a partisan issue in the U.S. than it is in Europe. Europeans, whatever their political leanings, tend to see indebtedness the same way. The left-right divide in concern is five percentage points in Germany, four in France, and three in Britain. It is 20 points in the United States, with only 59% of liberals ranking debt as a major threat to the economy compared with 79% of conservatives.[35]

Naturally, Americans strongly disagree on proposed solutions to the debt and, when asked systemically, would prefer to cut nothing. (Only cutting "aid to the world's needy" received more than 1/3 support in the most recent Pew poll on the subject.) Voters who ranked debt as the most significant national issue voted for Romney in the 2012 presidential election—but only on a 52%-42% split.[36]

To understand why the prospect of a large national debt did not fire young voters in 2012, it is worth showing what, and how, are the consequences of amassing a large debt. *Pace* former Vice President Cheney, who once said "deficits don't matter,"

[34] "Debt and Deficit: A Public Opinion Dilemma," Pew Research Center for the People & the Press, June 14, 2012, http://www.people-press.org/2012/06/14/debt-and-deficit-a-public-opinion-dilemma/.
[35] Id.
[36] Id.

(though his time as Chief Executive of Halliburton came during the felicitous period 1995 to 2000, when fast growth explained away the prodigious use of leverage), they do matter—as the example of Greece has shown. Long-term deficits matter especially deeply to the rising generation, which in Greece has already missed its chance to achieve meaningful economic stability. Reinhart and Rogoff analyze defaults, banking panics, and inflation crises in 66 countries and find that public debt over 90% of GDP is correlated with significantly slower growth, namely about half of a given nation's growth level with healthier levels of debt.[37]

Reactions: the 2012 Election

People aged 18 to 29 voted overwhelmingly for Barack Obama in the 2012 election, with President Obama winning that demographic by 67-30 over Mitt Romney.[38] While President Obama lost 3.7 million under-30 votes between 2008 and 2012[39], the degree by which youths broke in his favor remained considerable. Recent analysis shows that the election result would have changed if Mitt Romney had split the youth vote evenly with President Obama. Indeed at least 80 electoral votes hinged on the youth vote.[40] President Obama won the youth vote in Ohio, Florida, Virginia, and Pennsylvania—and *lost* those states among voters 45 and older.

Youth by their behavior in the 2012 election appear to be receptive to the putative advantages of their own repression—namely, greater stability in one's old

[37] Shortly before this writing, Hendon, T., Ash, M., and Pollin, R. released the working paper "Does High Public Debt Consistently Stifle Economic Growth? A Critique of Reinhart and Rogoff," a criticism of the work referred to here. Importantly, while Ash et al. point up coding errors and uncoded data in the Rogoff-Reinhart analysis, correcting the errors they find (while ignoring their weighting criticism, which was merely methodological) does not directionally alter the Rogoff-Reinhart relationship between public debt and growth.

[38] In 2008, voters ages 18 to 29 broke 66% for Barack Obama and 32% for John McCain.

[39] CPS turnout data and National Election Pools exit polls.

[40] The Center for Information & Research on Civic Learning & Engagement, http://www.civicyouth.org/wp-content/uploads/2013/05/CIRCLE_2013Factsheet_FinalYouthVoting2012.pdf.

age, reliability and coequality of outcomes, a compression of the spectrum of human talent in service of an emotionally uncomplicated civic society.

In Western Europe, the social safety net is enthusiastically embraced, and it has brought about a new mode of living in which personal wealth creation has given way to an ephemeral existence: the state is *rentier* and the citizen a vassal, and light work, resulting in no savings, is laterly cast off for a mediocre pensioned retirement. The European Commission's Eurobarometer survey of attitudes on economic issues is revealing. Asked in May 2012 what was the most important issue, only 15% responded answered household financial situation or health and social security—the averageness of these things is, for the moment, vouchsafed. But the most popular answer, with 45%, was *inflation*, or rising prices. Inflation in the European Union is rather low—indeed below the 2% target of the major central banks. But as Tyler Cowen observes, what is telling is what the surprising survey results say about the modern European economy: "I believe that…they are confusing a tight standard of living with 'inflation'. . . [but] they understand they have privileged/protected service sector jobs, they know they will not see many more nominal wage hikes, they feel more or less protected against nominal wage cuts, they do not like the idea of renegotiating their labor contracts, and so they understand that a higher 'p dot' does indeed lower their real wage more or less forever."[41]

Millennials in America should not be written off. In many respects they show signs of self-medication. Although knowledge of economics at 12th grade has not changed a whit since 2006[42] despite its having dominated the headlines, behavior among youth is adjusting. Sallie Krawcheck, former president of global wealth and investment management at Bank of America, says that millennials are "the second-

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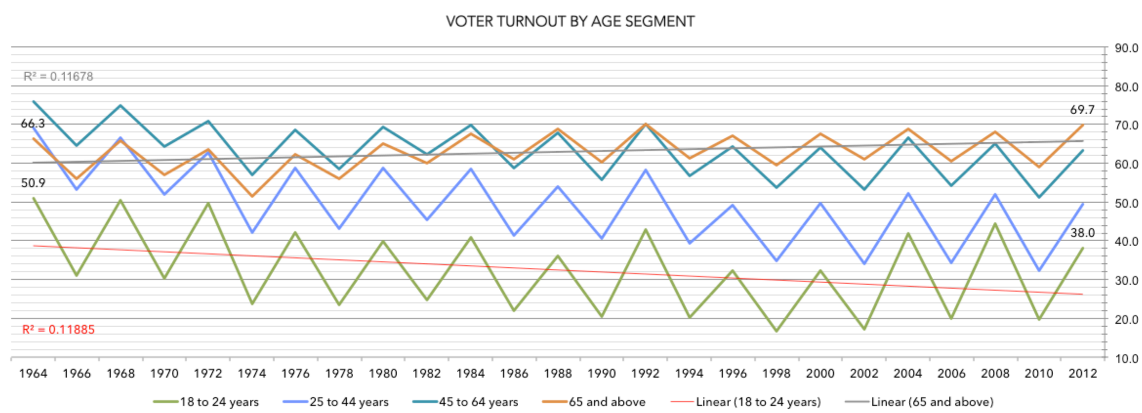
[41] "EU survey shows how much people dislike inflation," Cowen, T., Marginal Revolution, 5/19/2013, http://marginalrevolution.com/marginalrevolution/2013/05/eu-survey-shows-how-much-people-dislike-inflation.html.
[42] See Appendix, National Center for Education Statistics (2013). The Nation 's Report Card: Economics 2012 (NCES 2013 –453).

most conservative group of investors, right behind their grandparents."[43] The headline in the *Journal* was "Millennials Are Better Savers Than Boomers, Gen-X."[44] A recent Wells-Fargo survey found that 61% of Millennials described themselves as savers (although only 54% of men and 43% of women had actually begun saving for retirement).[45] Asked what is their "biggest financial concern currently," 54% answered debt. 42% characterized their debt as "overwhelming." Millennials (as well as all other age cohorts) currently favor decreasing government spending.[46]

REACTIONS: ECONOMIC WITHDRAWAL

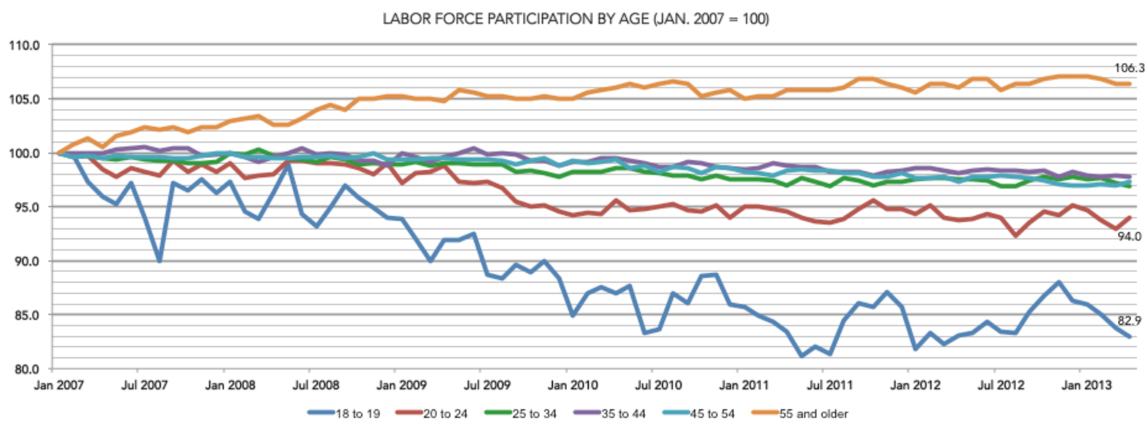
At the moment, the most easily characterizable and observable reaction of American young people to this stacked deck is the natural one—withdrawal. The young are increasingly withdrawing from the common project of the republic.



Data: United States Census

[43] "Millennials Are Better Savers Than Boomers, Gen-X," Cronin, B., The Wall Street Journal, May 22, 2013. http://blogs.wsj.com/economics/2013/05/22/millennials-are-better-savers-than-boomers-gen-x
[44] Id.
[45] "More than Half of Millennials Say Debt is Their "Biggest Financial Concern," According to Wells Fargo Survey," BusinessWire. http://www.businesswire.com/news/home/20130522005447/en/Millennials-Debt-%E2%80%9CBiggest-Financial-Concern%E2%80%9D-Wells-Fargo.
[46] Reason-Rupe Public Opinion Survey, May 2013. http://reason.com/assets/db/13691793244676.xls.

The very young and the very old have sharply divergent voting patterns. Americans 65 and older turned out at the 66.3% level in 1964 and at the 69.7% level in 2012. Americans under 25 turned out at the 50.9% level in 1964 compared to 38% in 2012. The trend is even negative for voters in the 25-44 segment. A simple linear regression reveals the trend.[47] Youth are disengaging, and seniors gaining in political influence. Yet as noted above, the monolithic nature of the youth vote has an impact—youths went overwhelmingly for a candidate whose platform strongly endorsed increased transfers to the old and a more steeply progressive economy for the young.



Data: Bureau of Labor Statistics

And the young are withdrawing from the workforce. The Washington Post recently lamented: "Perplexingly, the driving force behind the decline [in labor force participation] does not appear to be baby boomers beginning to retire, an event economists have long predicted would shrink the size of the workforce. It's people in the prime of their working years, ages 25 to 54, who began tumbling out of the job market in the early 2000s and have continued to disappear during the recovery."[48]

47 Under 25 series r^2 = 0.11885; Over 65 series r^2 = 0.11678. These low r^2 figures are largely due to the presidential/midterm cycle. Dropping midterm elections yields similar trends with r^2 of 0.39839 and 0.47575, respectively.
48 "Vanishing Workforce Weights on Growth," Tankersley, J., The Washington Post, April 6, 2013. http://www.washingtonpost.com/business/economy/vanishing-workforce-weighs-on-growth/2013/04/06/2bc46116-9e20-11e2-9a79-eb5280c81c63_story.html.

This severely understates the true depths of young Americans' reaction to their new environment. The government does not consider labor force participation by age to be a headline statistic, so the data is rarely seen. But that does not mean that it is not available. We can see what is going on by cutting labor force participation by age cohort and plotting the series, indexing to January 2007, before the recession began in earnest. The picture is rather grim.

This admittedly brief time series shows a dramatic and sustained downturn in labor force participation among 18-24 year olds, beginning in earnest in January 2009.[49] At the same time, participation by the 55 and older cohort rises more or less steadily. It is difficult to believe that rising college attendance or longer lifespans—major multidecadal trends—could alone account for this result.

As youths remove themselves from politics by exasperation and from the workforce by *force majeure*, their political agency declines all the more. But as the political agency of the young decreases, that age cohort's ability to sense where the wind is blowing has not. Some of the most robust polling on feelings around Social Secutity and age was completed by Rupe and released in May 2013.[50] A recent Rupe poll asked Americans: *"In general, do you think of social security as a retirement fund that workers pay into to finance their own future benefits, or do you see it as a transfer program where workers pay for the retirement benefits of current retirees?"* The results were striking. 33% of respondents 18-24 answered "transfer program," as did a notable 47% of respondents 24-34. (Only 20% of those 65 and older answered that Social Security was a transfer program, while 62% averred that it was a retirement fund and 10% refused to answer.) The poll also asked: *"As you may know, the typical worker today will likely pay more in social security taxes than they will eventually receive in benefits. Would you favor or oppose a plan that would allow workers to opt-out of Social Security, meaning they*

[49] This chart breaks out the 18-19 cohort from the 20-24, even though it seems typical to consider 18-24 as a cohort. I think this presents a more honest picture of the data, since it is possible the more dramatic 18-19 decline cannot be ascribed to the larger trend discussed here, but to ephemeral factors.
[50] Reason-Rupe Public Opinion Survey, May 2013. Crosstabs on file with author.

could choose not to pay social security taxes and not receive Social Security benefits, and instead save that money in their own retirement accounts?" 74% of respondents 18-24 and 73% of respondents 25-34 favored the opt-out. These are majorities not commonly seen in public policy polling.

THE LOOM OF YOUTH

China enjoyed many centuries as the most rigorously inventive society in the world. From paper to gunpowder, China outpaced Europe in major advances—until the Qing dynasty. For the proposition that growth and invention can come up against the hard wall of policy, and that misery can result, 15th century China stands as an unassailable proof. For centuries before, as Virginia Postrel notes, China "copiously documented many inventions in handbooks, treatises, and encyclopedias…China had many cities in the verge: commercial centers where travelers brought not only products but also ideas from abroad, enriching Chinese learning with Arabic, Persian, and Buddhist science, philosophy, and technology—and, in turn, taking Chinese learning home."[51] Song and Yuan China was at the zenith of science and technology. The Chinese produced advances in manufacture, metals, and sailing far ahead of those in Europe. Suddenly, around 1500, in the Ming Dynasty, everything changed.

The great synthesis of all technological arts is the clock.[52] In *Revolution in Time*, historian David Landes describes the making of the modern world through the manufacture of chronometers. Landes describes a man called Su Sung, who constructed a water-driven astronomical clock in an area called Kaifeng. A

[51] "The Future and Its Enemies," Postrel, V. 208.
[52] One is tempted to say that the clock has been replaced in the modern age by the computer as the noblest labor of great engineers. But this is to repeat oneself—for what is a microprocessor but a synchronicity of hundreds (in the 1960s, and now billions) of transistors? We still measure our latest laptops by the CPU's "clock speed," frequently seen as an expression like "2.4 GHz."

continuous flow of water into a vertical escapement mechanism kept remarkably accurate time—far ahead of anything in Europe. Around 1130, Su Sung as part of his ambassadorial role was asked to move north to bring a gift to the emperor of the Liao kingdom, whose birthday fell on the winter solstice. Su Sung arrived several days away from the Solstice, because the official Chinese date and time was off. The Liao at first would not receive him early, but eventually relented. When Su Sung returned to China, "Emperor Shen Tsung, who was very pleased at his success...at once asked which of the two calendars was right. Su Sung told him the truth [viz. that the 'barbarian' Liao was correct], with the result that the officials of the Astronomical Bureau were all punished and fined."[53]

After this Su Sung was asked to build his famous water clock. He did. For our purposes, what is significant is that the Ming Dynasty cracked down in such a way that "[a]lmost five hundred years were to pass before the Chinese would see clocks comparable in complexity and performance with Su Sung's masterpiece, by then completely forgotten."[54] As Postrel catalogues, "the books disappeared. Voyages of exploration were forbidden, and the records of earlier voyages burned. By 1500, building a seagoing junk with more than two masts was punishable by death; a half-century later, going to sea to trade was considered a form of treason."[55] China, in a well known story, retreated from the world, with much unnecessary slow growth and isolation resulting. Stability, in other words, at the expense of innovation. Dynamism, as Postrel shows, can recede quickly—all the more quickly in a world of jet planes, the internet, and electronic money transfers. Su Song's water clock demonstrates just how far a people can fall, and how fast.

[53] *Heavenly Clockwork*, Needham, J., et al., Cambridge University Press, 1960. 6-7.
[54] *Revolution in Time*, Landes, D., Harvard University Press, 2nd edition, 2000. 33.
[55] Postrel at 208.

Reflecting (in 1993) that "reading *Business Week* today reminds one of the British press around 1900," economist Joel Mokyr proposes that "technological creativity is like youthful vitality: As time passes, the creative juices gradually dry up, and sclerosis sets in. Societies become increasingly risk-averse and conservative, and creative innovators are regarded as deviants and rebels."[56] Youthful vitality is the essential stuff of growth. But its vast potential is not stronger than its inherent fragility. It must be protected. "It is not the fruits of past success but the living in and for the future in which human intelligence proves itself. Progress is movement for movement's sake, for it is in the process of learning, and in the effects of having learned something new, that man enjoys the gift of his intelligence."[57] Or, as Smith had it, "It is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the laboring poor, of the great body of people, seems to be happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state."[58]

The necessary conclusion is that youthful vitality is under assailment in modern America. It is challenged both practically and normatively. Practically, stores of youthful energy and experimentation are drained by the instrumentalities of government. Simultaneously, a deeply progressive taxation structure has decoupled reward from work, ensuring middling output, while massive age-defined welfare programs promote unnatural risk aversion in youth and forestalling financial independence.

[56] "Creative Forces," Mokyr, J., Reason Magazine, May 1993.
[57] *The Constitution of Liberty,* Hayek, F. A., University of Chicago Press, 1960. 95.
[58] *The Wealth of Nations*, Smith, A., vol. 1, Liberty Fund Edition, p. 99.

But vitality is also under assault as a virtue, and risks falling, in the opinion of the body politic, to vice. What do young Americans consider to be the good life? When Aristotle discusses the attainment of happiness, he uses the Greek word eudemonia, which consists of the words *eu* (good) and *daimōn* (spirit). The *Definitions*, an ancient source traditionally (but probably erroneously) attributed to Plato, defines eudemonia as "success in life: the good composed of all goods; an ability which suffices for living well; perfection in respect of virtue."[59] Human industry has long been the *sine qua non* of the American eudemon. Tocqueville writes:

> The Americans frequently term what we should call cupidity a laudable industry; and they blame as faint-heartedness what we consider to be the virtue of moderate desires. . . . The territory of the Union presents a boundless field to human activity, and inexhaustible materials for industry and labor. The passion of wealth takes the place of ambition, and the warmth of faction is mitigated by a sense of prosperity. . . . Not only are manufacturing and commercial classes to be found in the United States, as they are in all other countries; but what never occurred elsewhere, the whole community is simultaneously engaged in productive industry and commerce.[60]

From Tocqueville's vantage in 1831—one hundred years before the protean social security, the Railroad Retirement Act, was judged unconstitutional (though an altered form of that benighted scheme still draws tax money, dispensing $10.5 billion per year to about 500,000 descendants of railroad employees[61]) and 105 years before the Social Security Administration itself was created—industry, not stasis, was the essential philosophy of America. That is changing. Even as the young grow conscious of the unsustainable nature of the modern welfare state, they consent to be crowded out of the electorate and of the labor market by its many circumflex effects.

[59] *Definitions*, The Complete Works of Plato, Cooper, J., ed., 1680.
[60] *Democracy in America*, Tocqueville, Reeve, H., trans..
[61] United States Railroad Retirement Board, http://www.rrb.gov/act/yearly_data.asp.