

February 8, 2013

*"The worst enemies of Social Security and Medicare are the people who say don't touch (them). They are headed for a certain arithmetic catastrophe."*

-PAUL RYAN

**The Great Inversion.** We definitely live in a time of "Greats." The "Great Moderation" was the long period of contained inflation, low interest rates, and steady growth that ran from the early 1990s until 2008, of which the Fed was so proud.

Of course, this golden age of central banking enlightenment ended in tears, if not uncontrolled sobs, with the "Great Recession." To combat the contractionary forces of that epic downturn, the Fed and its most important peers around the world have resorted to what we have dubbed the "Great Levitation"—i.e., manufacturing trillions of dollars of electronic money over the last few years to prop up economies and financial markets. Lately, expectations are running high for the "Great Rotation," basically a seismic shift of funds from bonds into stocks.

At the obvious risk of overusing an already heavily flogged word, I thought I'd throw another "Great" into the mix—the "Great Inversion." I know, it's a bit cheeky, as the Brits say, but I believe this might be the most important, and overlooked, "Great" of them all.

The modern welfare state was built on one of the most fundamental geometric figures, the triangle, and its three-dimensional extension, the pyramid. The entire entitlement superstructure was meant to be supported by a broad foundation of young and highly productive workers supporting a fairly small upper section of retirees.

For many years, during the post-war baby boom in most Western countries, this structure was as solid as the Great Pyramid itself. However, unlike the latter, it is clearly not destined to survive for another few decades, much less thousands of years. The irrefutable problem is that the population pyramid is inverting.

As conveyed in past EVAs, the US is actually in enviable shape in this regard compared to the rest of the developed world. A comparatively high birth rate and persistent (though diminished) immigration should allow the US population to expand, albeit at a much slower pace than in the past.

In this month's guest EVA, newsletter titan John Mauldin's close friend and former business partner, Gary Halbert, takes a hard look at demographic trends in the US. As you will read, even America has some very serious challenges ahead of it in this regard, largely due to the increasingly endangered institution of marriage.

On this point, I just read an op-ed piece by one of the *Seattle Times'* young staff writers. In it, she almost proudly announced that she and her husband had recently decided that they would remain forever kid-less. They had jointly concluded that having children was not on their mutual bucket list.

Well, perhaps procreating is not among the top 10 things to do on an individual basis for the current child-bearing (or not) generation, but from a societal standpoint it qualifies as the ultimate essential—particularly when a global welfare state is utterly reliant upon that most basic of all human proclivities.

Yet, as is painfully and repeatedly apparent, we are light years removed from JFK's zeitgeist of: "Ask not what your country can do for you but what you can do for your country." Maybe we've got something to learn from the Egyptians and all those other ancient societies that wisely valued the nuclear family—even before molecular physics was ever discovered!

Image not found or type unknown

## **US BIRTH RATE HITS NEW LOW - A NATION OF SINGLES**

*By Gary D. Halbert*

### **IN THIS ISSUE:**

- 1. US Birth Rate Falls to Record Low in 2011**
- 2. Birth Rate Needed to Maintain Current Population**
- 3. A Nation of Singles – Implications For the Future**
- 4. How Did We Become a Nation of Singles?**
- 5. Conclusions – How Do We Turn the Trend Around?**

### **OVERVIEW**

One of the issues I have been focused on for the last several years has been the trend in demographics in the US and in developed countries in general. Our populations are getting older – we all know that. But the reasons why our populations are getting older are not widely understood by many Americans. Those reasons include the falling birth rate, the falling fertility rate, the falling marriage rate and the explosion in singles – people who never marry.

The US birth rate fell to a record low in 2011. The marriage rate is tumbling as well. And the number of single Americans is now at a record high. The implications of these developments are troubling, not only for the economy, but also for the investment markets and the continual expansion of the federal government. Government debt has spiraled out of control in recent years, and the demographics suggest that this trend will continue as we care for an aging population.

Today, we will look at some new information on demographic trends in the US and in the West in general that should concern you, and all Americans for that matter. This will be a continuing theme in my E-Letters in the months and years ahead. Let's get started.

### **US BIRTH RATE FALLS TO RECORD LOW IN 2011**

The US birth rate plunged to a record low in recent years, with the decline being led by immigrant women hit hard by the recession, this according to a study released in late November

by the Pew Research Center. A falling birth rate has major implications for the economy and our aging population, as I will discuss today.

The overall US birth rate decreased by **8%** between 2007 and 2010, with a much bigger drop of 14% among foreign-born immigrant women. The overall birth rate is now at its lowest level since reliable records have been kept, falling to 63.2 births per 1,000 women who are of childbearing age in 2011. That is down from 122.7 births at the peak in 1957 during the Baby Boom.

The birth rate among foreign-born immigrant women, who have tended to have bigger families, has also been declining in recent decades, although more slowly, according to the Pew report. However, according to the report, the birth rate for immigrant women plunged from 2007 to 2011. One of the most dramatic drops was among Mexican immigrants – down 23%.

Side Note: Some people confuse the birth rate (number of births per 1,000 women) with the fertility rate. The fertility rate is the average number of children born to a woman during her lifetime. The fertility rate needed to maintain the current US population is 2.1 children born to women of child-bearing age. According to multiple studies, the US fertility rate among women is now only **1.9** children and falling.

Most researchers attribute the drop in the birth rate in large part due to the severe recession in 2007-2009. The decline could have far-reaching implications for US economic and social policy. A continuing decrease could challenge long-held assumptions that previously rising birth rates among immigrants will help maintain the US population and create the taxpaying workforce needed to support the aging Baby-Boom generation.

The fall didn't occur because there are fewer immigrant women of childbearing age, but because of a change in their behavior, the Pew report noted, citing data from the National Center for Health Statistics and the US Census Bureau. The Pew report concluded that ***"the economic downturn seems to play a pretty large role in the drop in the fertility rate."***

Although the declining US birth rate has not created the kind of stark imbalances found in graying countries such as Japan or Italy, it should serve as a wake-up call for policymakers, said Roberto Suro, a professor of public policy at the University of Southern California who studies trends in birth rates. He warned:

*"We've been assuming that when the Baby-Boomer population gets most expensive [to support], that there are going to be [enough] immigrants and their children who are going to be paying into [programs for the elderly], but in the wake of what's happened in the last five years, we have to reexamine those assumptions."*

## **BIRTH RATE NEEDED TO MAINTAIN CURRENT POPULATION**

As noted above, the US birth rate has been declining slowly over the last several decades. Today, the US fertility rate needed to maintain the current US population is 2.1 children per woman during her lifetime. Yet it now stands at only **1.9** and is falling, so we're going backward.

The question is, why is the fertility rate falling faster in recent years, especially among immigrant women? As noted above, experts often point to the recession and financial crisis which unfolded in late 2007. The current falling fertility rate mirrors to some extent what has happened during other recessions. But in past recessions, the birth rate increased again once the economy recovered. So why is it not happening this time?

There are numerous possible answers. Let's start with the plunge in birth rates among immigrants. Almost half of all immigrants to the United States are of Hispanic origin. But in recent years, immigration from Mexico, the biggest contributing country for many years, has dried up. For the first time since the Great Depression, the net migration from Mexico to the US has been zero.

Latino immigrants who have been here longer tend to adopt US attitudes and behavior, including having smaller families. Most experts agree that the decline in the birth rate among Mexican immigrants is probably so sharp because the rate was so high that there was more room for it to fall.

The birth rate decline among Latino women in recent years may also be related to enhanced access to birth control, emergency contraception alternatives and better sex education in schools, according to Kimberly Inez McGuire, a senior policy analyst at the National Latina Institute for Reproductive Health.

Fertility rates play a role, too. Nearly one in five American women now forgo having children altogether and, without babies, many consider marriage to be less of a necessity. People's attitudes have followed the fertility rate. The Pew Research Center frequently surveys Americans about their thoughts on what makes a successful marriage. Between the 1990 survey and the 2007 survey, there were big increases in the percentages of people who said that sharing political or religious beliefs was "important to a good marriage."

In 2007, there was a 21% increase in people who said it was important for a marriage that the couple have "good housing." Thirty-seven percent fewer people said that having children was important. The other indicator to decline in importance from 1990 to 2007 was faithfulness.

In Europe, Asia, and most advanced countries, people are running away from marriage, children, and family life at an amazing rate. For example, 30% of German women today say that they do not intend to have children. In Japan in 1960, 20% of women between 25 and 29 had never married; today the number is more than 60%. It is estimated that up to 25% of all East Asian women will remain single up to age 50, and up to a third will remain childless.

**Whatever the reasons, the US birth rate has fallen below the level needed to keep our population steady, much less growing. This pattern is likely to continue lower, especially as immigrants adopt US cultural norms of fewer children and smaller families. This will have growing implications for the economy and the investment markets.**

Are we on the path to become Japan and Europe with even more aged populations? Demographers far and wide say yes. I first alerted my readers to this trend in 2007 when I reprinted a chilling article entitled "It's the Demography Stupid." It is even more chilling now!

## **A NATION OF SINGLES – IMPLICATIONS FOR THE FUTURE**

What follows is a summary of a post-election demographic study that was sponsored by the ***Weekly Standard***.

Americans have been wedded to marriage for a very long time. Between 1910 and 1970, the "ever-married rate" – that is, the percentage of people who marry at some point in their lives – went as high as 98.3% and never dipped below 92.8%. But beginning in 1970, the ever-married number began a gradual decline so that by 2000 it stood at only 88.6%.

Today, the numbers are even more striking according to the 2010 Census. Almost 24% of men, and 19% of women, between the ages of 35 and 44, have never been married. If we look at the people between 20 and 34 – the prime-childbearing years – the numbers are even more startling: 67% of men and 57% of women in this group have never been married. **When you total it all up, over half of the voting-age population in American, and 40% of the people who actually showed up to vote this time around, are single.**

You don't hear nearly as much about the rise of single voters, despite the fact that they represent a much more significant trend. Only a few political analysts have emphasized how important "singletons" were to President Obama's reelection. Properly understood, there is far less of a "gender gap" in American politics than people think. Yes, President Obama won "women" by 11 points (55 to 44 percent). But Mitt Romney won married women by the exact same margin.

To get a sense of how powerful the marriage effect is, not just for women but for men, too, look at the exit polls by marital status. Among non-married voters – people who are single and have never married, are living with a partner, or are divorced – Obama beat Romney 62-35. Among married voters Romney won the vote handily, 56-42.

Far more significant than the gender gap is the "marriage gap." And what was made clear in the recent election was that the ranks of unmarried women and men are now at historic highs, and are still increasing. This marriage gap and its implications for our political, economic, and cultural future is not well understood.

What does this group look like? Geographically, they tend to live in cities. As urban density increases, marriage rates (and childbearing rates) fall in nearly a straight line. Politicos James Carville and Stanley Greenberg put together some very interesting data on singles. Of the 111 million single eligible voters, 53 million are women and 58 million are men. Only 5.7 million of these women are Hispanic and 9.7 million are African American. **Nearly three-quarters of all single women are white.**

Singles broke decisively for Obama, no surprise there. Though his margins with them were lower than they were in 2008, he still won them handily: Obama was +16 among single men and +36 with single women. But the real news wasn't how singles broke – it was that their share of the total vote increased by a whopping **6 percentage points**.

That 6 percentage point increase meant **7.6 million** more single voters than in 2008. They provided Obama with a margin of 2.9 million votes, about two-thirds of his margin of victory. To put this in some perspective, the wave of Hispanic voters we've heard so much about increased its share of the total vote from 2008 to 2012 by only a single point to roughly 12.5 million voters. It makes you wonder how the Romney handlers missed that!

## HOW DID WE BECOME A NATION OF SINGLES?

How did we get to an America where half of the adult population isn't married and somewhere between 10% and 15% of the population don't get married for the first time until they're approaching retirement? Jonathan Last, who did the research and wrote the article for the Weekly Standard, explains this phenomenon as follows:

*It's a complicated story involving, among other factors, the rise of almost-universal higher education, the delay of marriage, urbanization, the invention of no-fault divorce, the legitimization of cohabitation, the increasing cost of raising children, and the creation of a government entitlement system to do for the elderly childless what grown children did for their parents through the millennia.*

*But all of these causes are particular. Looming beneath them are two deep shifts. The first is the waning of religion in American life. As Joel Kotkin notes in a recent report titled "The Rise of Post-Familialism," one of the commonalities between all of the major world religions is that they elevate family and kinship to a central place in human existence. Secularism tends toward agnosticism about the family. This distinction has real-world consequences. Take any cohort of Americans—by race, income, education — and then sort them by religious belief. The more devout they are, the higher their rates of marriage and the more children they have.*

*The second shift is the dismantling of the iron triangle of sex, marriage, and childbearing. Beginning in roughly 1970, the mastery of contraception decoupled sex from baby-making. And with that link broken, the connections between sex and marriage — and finally between marriage and childrearing — were severed, too.*

*Where is this trend line headed? In a word, higher. There are no indicators to suggest when and where it will level off. Divorce rates have stabilized, but rates of cohabitation have continued to rise, leading many demographers to suspect that living together may be crowding out matrimony as a mode of family formation. And increasing levels of education continue to push the average age at first marriage higher.*

The question, then, is whether America will continue following its glidepath to the destination the rest of the First World is already nearing. Most experts believe that it will. As the Austrian demographer Wolfgang Lutz put it, once a society begins veering away from marriage and childbearing, it becomes a "self-reinforcing mechanism" in which the cult of the individual holds greater and greater allure. Jonathan Last continues:

*What then? Culturally speaking, it's anybody's guess. The more singletons we have, the more densely urban our living patterns are likely to be. Sociologist Eric Klinenberg believes that the masses of city-dwelling singles will sort themselves into "urban tribes," based not on kinship, but rather on shared interests. The hipsters, the foodies, the dog people, and so on. Klinenberg teaches at NYU, so he would know. As a result, cities will gradually transform from centers of economic and cultural foment into what urban theorist Terry Nichols Clark calls "the city as entertainment machine."*

*The urban tribes may be insipid, but they're reasonably benign. Kotkin sees larger cultural problems down the road. "[A] society that is increasingly single and childless is likely to be more concerned with serving current needs than addressing the future," he writes. We could tilt more into a "now" society, geared towards consuming or recreating today, as opposed to nurturing and sacrificing for tomorrow.*

So what does this mean for the economy? The economic effects are similarly unclear. On the one hand, judging from the booming economic progress in highly single countries such as Singapore and Taiwan, singletons can work longer hours and move more easily for jobs. On that level a more single society could be good for the economy. But only for a period of time, as fewer babies are being born to replace them.

And there's another downside to this scenario of falling marriage rates and more singles in the workforce. Demographers have found that without the responsibility of families to provide for, unmarried American males have historically tended to drop out of the labor force prior to their normal retirement age, thus exacerbating recessionary tendencies in the economy. Not good.

That's because marriage, as an institution, is helpful to all involved. Survey after survey has shown that married people are happier, wealthier, and healthier than their single counterparts. All of the research suggests that having married parents dramatically improves the well-being of children, both in their youth and later as adults.

As demographer Robert George put it after the election, limited government ***"cannot be maintained where the marriage culture collapses and families fail to form or easily dissolve. Where these things happen, the health, education, and welfare functions of the family will have to be undertaken by someone, or some institution, and that will sooner or later be the government."***

Marriage is what made the West, and America in particular, so successful. George continues, **"The two greatest institutions ever devised for lifting people out of poverty and enabling them to live in dignity are the [free] market economy and the Institution of marriage. These institutions will, in the end, stand or fall together."**

## **CONCLUSIONS – HOW DO WE TURN THE TREND AROUND?**

Over the last few decades, our culture has migrated toward **tolerance**. Tolerance of the decay of marriage, acceptance of divorce and cohabitation and even gay marriage in a growing number of states. This along with the trend toward having fewer children, for a variety of reasons, has put our nation at risk of a multi-decade decline in the population.

The US birth rate has always declined during periods of recession. But the birth rate has always climbed to new highs after recessions – except this time. The US birth rate has continued to decline to a record low since the recession of 2007-2009. This is alarming.

At the same time, the number of single Americans continues to climb to record highs. The rise in singles who do not reproduce is an equally troubling demographic. This suggests that the institution of marriage is in jeopardy for all the reasons discussed above.

**Somehow, we need to re-instill the importance of marriage in our culture. And sooner rather than later. That may not be a panacea for a rising birth rate, but it is a place to start. Marriage is an institution which ought to be celebrated, nurtured, and defended because its health is integral to the success of our culture.**

All of these issues noted today – the falling birth rate, fewer marriages, record number of singles, etc. – are very important developments for our society and cannot be adequately addressed in such a short space as this. There are also far-reaching implications for saving and investing as well. Thus, I will be writing more on these topics in the weeks and months to come.

## **IMPORTANT DISCLOSURES**

This report is for informational purposes only and does not constitute a solicitation or an offer to buy or sell any securities mentioned herein. This material has been prepared or is distributed solely for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. All of the recommendations and assumptions included in this presentation are based upon current market conditions as of the date of this presentation and are subject to change. Past performance is no guarantee of future results. All investments involve risk including the loss of principal. All material presented is compiled from sources believed to be reliable, but accuracy cannot be guaranteed. Information contained in this report has been obtained from sources believed to be reliable, Evergreen Capital Management LLC makes no representation as to its accuracy or completeness, except with respect to the Disclosure Section of the report. Any opinions expressed herein reflect our judgment as of the date of the materials and are subject to change without notice. The securities discussed in this report may not be suitable for all investors and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. Investors must make their own investment decisions based on their financial situations and investment objectives.