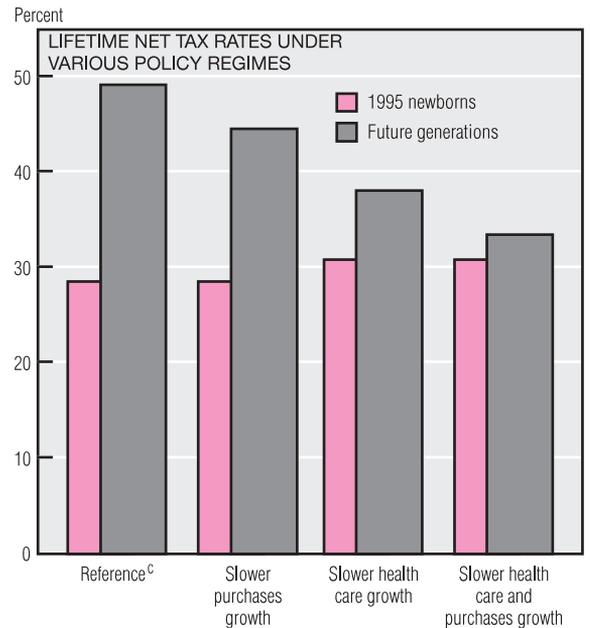
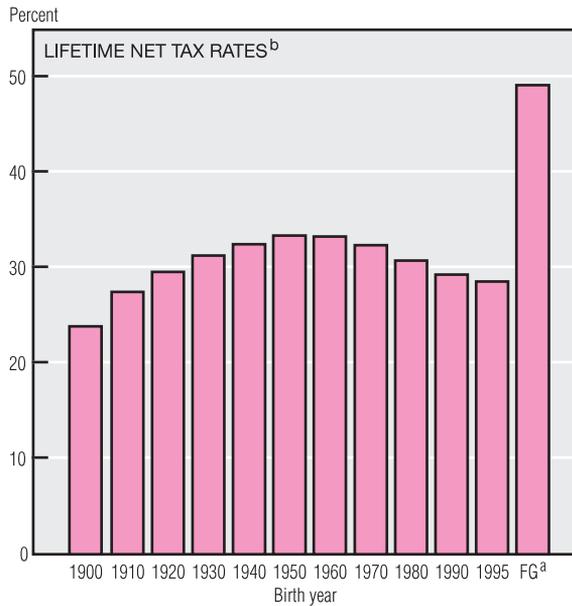
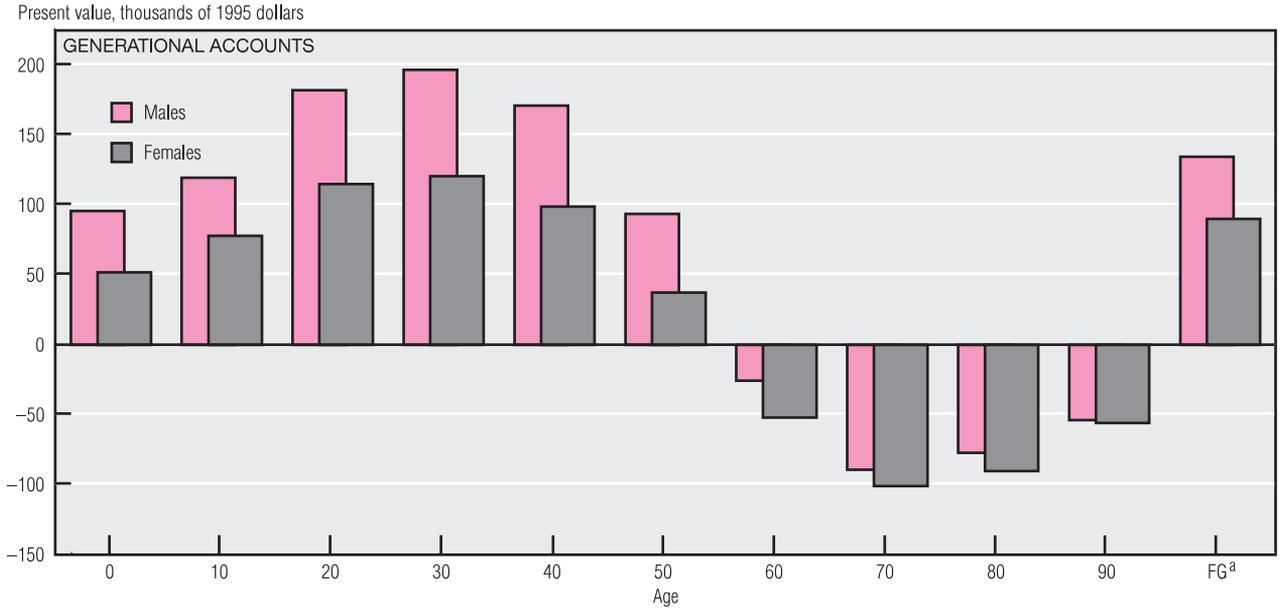


Generational Accounts



a. Future generations.
 b. Average of males and females in the same year.
 c. Cuts base purchases and health care outlays by the same amounts as under the Balanced Budget and Taxpayer Relief Acts of 1997.
 SOURCE: National Bureau of Economic Research.

Generational accounts—the present values of future taxes minus prospective transfers (net taxes) per capita by age and sex—tell us how the burden of paying for government purchases is distributed across generations. For example, the account of 30-year-old males is \$196,800. It is positive because, in present value, this group’s tax payments during working years exceed post-retirement Social Security and Medicare benefits. In contrast, 70-year-old males’ generational account is –\$89,200 because they pay

low taxes but receive large Social Security and health care benefits.

Lifetime net tax rates, which show what fraction of lifetime labor income is paid as net taxes, have increased from just under 24% for those born in 1900 to about 28.6% for those born in 1995. They are highest for the children of the 1950s and 1960s, but decline for later generations—a reflection of growth in Social Security and public health care programs.

If living generations continue to be treated as they are under current fiscal policies, future generations

will have to bear a much higher lifetime net tax rate—49.2% on average—if all projected purchases are to be paid for. The rate for future generations is more than 70% larger than that for 1995 newborns, a clear indication that current fiscal policy is unsustainable. If it is kept in place, each new generation will pay at a 28.6% rate—far too little to balance the government’s books in the long run. The unsustainability persists, even with optimistic projections of future purchases or health care outlays.