

# Issue Brief

NOVEMBER 19, 2020

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## Congress Should Require CBO to Estimate the Impact of Big Bills on Future Generations

### Introduction

In the midst of the current health and economic crisis, the federal government is spending more taxpayer dollars than ever. But the issue of Congress's unsustainable spending habits is not a new one. As early as 2018, the Congressional Budget Office (CBO) began to project annual deficits [exceeding \\$1 trillion](#).<sup>1</sup> The publicly-held national debt now [exceeds \\$21 trillion](#) and FY2020 ended with a budget deficit of [\\$3.3 trillion dollars](#).<sup>2</sup> CBO projects \$13 trillion will be added to the debt over the decade.

While lawmakers have boosted deficit spending to respond to immediate emergencies, there needs to be more consideration of the impacts on future generations of taxpayers who will be stuck with the bill for this debt. Instituting a concept called “generational accounting” would quantify the long-term burden of certain legislation.

<sup>1</sup> Congressional Budget Office. (2018.) “The Budget and Economic Outlook: 2018 to 2028.” Retrieved from <https://www.cbo.gov/publication/53651>.

<sup>2</sup> Department of the Treasury. (2020.) “The Debt to the Penny and Who Holds It.” Retrieved on November 9, 2020 from [https://www.treasurydirect.gov/govt/reports/pd/pd\\_debttothepenny.htm](https://www.treasurydirect.gov/govt/reports/pd/pd_debttothepenny.htm).

Congressional Budget Office. (2020.) “An Update to the Budget Outlook: 2020 to 2030.” Retrieved from <https://www.cbo.gov/publication/56542>.

### Key Facts:



With record levels of deficits and a growing debt, Congress needs to better account for the fiscal burdens being passed onto future generations.



A concept called generational accounting developed by a group of economists in the early 1990s calculates the higher taxes rates imposed on future generations for today's deficit spending.



Related legislation in the 113th Congress, the INFORM Act, would require CBO to produce generational accounting estimates for high cost bills. Lawmakers should strengthen and re-introduce this reform.

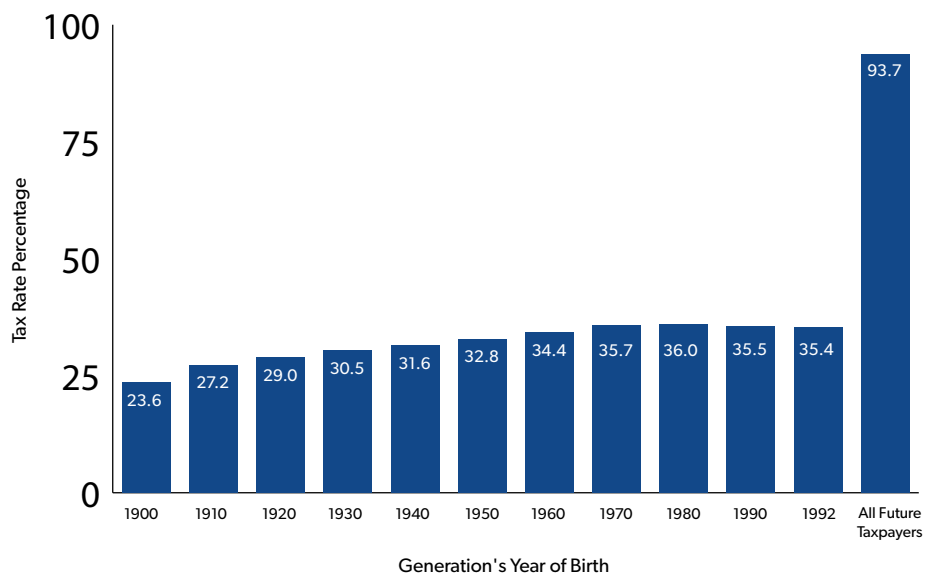
## Background

The concept of applying generational accounting analysis to spending is not new. In fact, the National Taxpayers Union Foundation wrote about this concept over 25 years ago in our *Capital Ideas* newsletter when the economists who developed the concept, Alan Auerbach, Jagadeesh Gokhale, and Laurence Kotlikoff, [published](#) a paper in 1991 titled “Generational Accounts: A Meaningful Alternative to Deficit Accounting.”<sup>3</sup> The authors questioned the ultimate value of measurements of the federal deficit, at a time when surpluses in the Social Security Trust Fund and other accounting sleights of hand helped mask the true gap between federal revenues and outlays.

Their alternative concept compares “what the government is projected to take from current generations with the difference between its projected consumption expenditures and its current net wealth” to estimate the amount that future generations will need to pay. They found that “that future generations face 17 to 24% higher net taxes over the course of their lifetimes.”

For three years under the Clinton Administration, the Office of Management and Budget (OMB) included a generational accounting chapter in its annual budget submission. The calculations in the [FY 1995 budget](#) found that future generations could face a net tax rate of 94 percent, with even higher gross tax rates.<sup>4</sup> People born in 1992 were estimated to face a tax rate 165 percent higher than people born in 1900.

**Lifetime Net Tax Rates on Different Generations**



But in 1995, the section on generational accounting disappeared. When Laurence Kotlikoff, one of the economists who helped develop and implement the idea, was asked why the section was no longer there, [he explained](#): “We’d assisted OMB on this through the fall. Then, at the last minute, some of the political types in the White House threw it out.”<sup>5</sup> Perhaps the findings were too much to bear.

## The INFORM Act

The budget outlook has precipitously worsened since 1994 when federal debt held by the public amounted to 47.8 percent of GDP. Lawmakers today would be glad if the problem was “only” that big, as the level of

<sup>3</sup> Auerbach, Alan J. et al. “Generational Accounts: A Meaningful Alternative to Deficit Accounting,” National Bureau of Economic Research. January 1991. Retrieved from <https://www.nber.org/system/files/chapters/c11269/c11269.pdf>.

<sup>4</sup> Office of Management and Budget (1994). Budget of the United States Government: Analytical Perspectives: Fiscal Year 1995.” Retrieved from <https://fraser.stlouisfed.org/files/docs/publications/usbanalytical/BUDGET-1995-PER.pdf>.

<sup>5</sup> Glassman, James. “The Budget with the Hidden Generation Gap,” *The Washington Post*, February 15, 1995. Retrieved from <https://www.washingtonpost.com/archive/business/1995/02/15/the-budget-with-the-hidden-generation-gap/cb0560dd-bc70-4a64-8a9e-dd5ff1277237/>.

public debt is set to exceed the size of the economy at some point in FY 2021. The time is ripe to better account for the burdens being shifted to the future.

The reform concept was last introduced in the 113th Congress as the Intergenerational Financial Obligations Reform (INFORM) Act ([H.R. 2967](#) and [S. 1351](#)).<sup>6</sup> The bills had bipartisan support. Among the cosponsors of the bill who still serve in Congress are Representatives Jim Cooper (D-TN) and (now Senator) Todd Young (R-IN), and Senators Tim Kaine (D-VA), Chris Coons (D-DE), and Rob Portman (R-OH).

The INFORM Act would have the Congressional Budget Office (CBO) include a generational account estimate in its cost estimate for any bill with a budgetary impact exceeding 0.5 percent of GDP over the following decade. In simpler terms, CBO would have to report on the projected impact that major legislation would have on tax rates of future generations.

Under the bill, CBO would have been required to include two main items in its cost estimate reports: a fiscal gap report and a generational account report, including changes in the fiscal gap and generational accounts relative to the baseline. CBO would also have to project the federal deficit and debt, at current spending levels, 75 years out.

A fiscal gap analysis projects the difference between the present value of all projected future spending and revenues. It also takes into account economic factors like productivity and calculates the amount of fiscal policy changes that would be necessary to close the gap.

CBO regularly draws up a long-range budget outlook beyond the typical ten-year scoring window. The INFORM Act would also require CBO to include a generational accounting and fiscal gap analysis as part of that report, which would have the advantage of being a regular assessment that encompassed the entire federal budget, in addition to analyses of the most expensive bills.

Through the addition of these provisions, Congress would have better data on hand to grasp the long-term impact of the most expensive policies. Though they may not experience the immediate consequences of unchecked spending, their children and grandchildren certainly will. Generational accounting would be able to highlight just how much needs to change in order to mitigate future damage from irresponsible proposals.

One fair critique of this proposal is that, because generational account projections are made over 75 years, its results may be highly uncertain. Despite the fact that these projections may leave room for some uncertainty and ambiguity, they are still worth making. While no projection can be precise and it is especially hard to estimate more than a decade into the future, generational analyses nonetheless can be educational for lawmakers because they explicitly encourage long-term thinking in the midst of a budget process that is obsessively focused on 10-year scores.

An additional idea to strengthen the INFORM Act would be to have CBO also prepare generational accounting under an alternative, more realistic fiscal scenario. CBO's baseline project is generally built on current law. However, this can underreport future deficits because many programs and tax provisions that are set to expire under existing law are typically extended. Performing generational analysis against a more realistic baseline, like that produced in CBO's alternative fiscal scenario projections, could help to make for more accurate assessments.

## Conclusion

Bringing back the concept of generational accounting would help show Congress how deficit spending is increasing burdens on future taxpayers. The proposal could prove to be a tangible way to elevate and

<sup>6</sup> Representative Schock, Aaron. "H.R. 2967, the Intergenerational Financial Obligations Reform Act," August 1, 2013. Retrieved from <https://www.congress.gov/bill/113th-congress/house-bill/2967>; and Senator Thune, John. "S.1351 - Intergenerational Financial Obligations Reform Act," August 24, 2013. Retrieved from <https://www.congress.gov/bill/113th-congress/senate-bill/1351>.

emphasize the importance of debate over the deficit by casting light on the long-term consequences of reckless congressional spending, especially as we emerge from the dire health and economic crisis in which we find ourselves today.

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