Book Review

Stephen S. Van der Ploeg
Northwest Nazarene University

The Coming Generational Storm: What You Need to Know about America's Economic Future
Laurence J. Kotlikoff & Scott Burns. (2004).
Cambridge, MA: MIT Press.

While I was reading this book, I regularly broke out laughing. My wife asked, "What are you reading?" I told her the title and content. Her response was "You're sick," a reply with which, as an economist, I am familiar. I then read some selected passages to her, and she (she's not an economist) also laughed. Our laughter is evidence of the delightful style of this book, which is written in a popular, nonacademic, even folksy, style. Here are some titles of sections: "Alice in Fiscal Land," "Playing Against Our Kids," "Figures Lie and Liars Figure." Yet its content and warning to us is very serious, as indicated by the title. After you read this book, you may agree with my wife, in spite of her acquiescence in mirth, because its contents are not a laughing matter.

This is a book of economic prophecy, an economic jeremiad. But it also offers solutions to the problem(s). Those problems, in a nutshell, are related to extremely large financial liabilities to current and future generations facing the residents of the United States. Many educated persons are aware (in a somewhat vague way) of weaknesses in Social Security, Medicare, and Medicaid, but this book lays out the problem in a novel and dramatic way. According to the authors — an expert in the area of pension economics and a financial journalist, respectively — Americans face an unfunded liability of $45 trillion (present value) to current and future generations. That's an amount so big that many of us have difficulty understanding it fully. This amount is the difference between the present value of the explicit and implicit promises made to current and future generations in existing law, and the arrangements which have been made to pay for these promises, also matters of current law. The book organizes its discussion of this problem around the theoretical framework of intergenerational accounting, a somewhat recent addition to the tools available to analysts of economic policy. Presented in the form of an equation (a governmental intertemporal budget constraint), the authors apologize for introducing it, suggesting that it's necessary to understand the problem, and otherwise good for us, and go on to prove the case.

According to Kotlikoff and Burns, the governments of the United States (federal, state, and local) are preparing, by means of neglect and our delegated representatives, to violate the eighth commandment (thou shalt not steal) in a really big way. Current generations, including, for example, the Baby Boomers, are getting ready to steal the $45 trillion from those following, including the unborn, in one way or another. This is presented as a moral problem of intergenerational equity, as well as plain old theft.

A unique feature of the argument of this book, briefly mentioned above, is its use of generational accounting. This is expressed by the intergenerational budget constraint, which allows for no free lunch, even for the government. Because the book's ideas are expressed using this theoretical framework, I will briefly expand on this idea, in an effort to convince you that it is useful and indeed necessary to understand these issues which confront the United States and many other countries. Indeed, according to the book, the failure to use such a conceptual framework to respond to the issues is, at least in part, responsible for the confusion surrounding discussions of the financing problems of Social Security, Medicare, and other programs that have promised much. The government sector's intertemporal budget constraint is presented in the form of a simple-looking equation:

$$A = C + D - B$$

Every element of this equation is in present value dollars. C is the government sector's expenditures in the present and the future. D is the government sector's official debt. B is the net taxes of currently alive generations (lifetime taxes less transfers), and A is the net taxes of future (not yet taxed) generations. The equation highlights that the greater the net taxes of current generations (B), the lower the net taxes of future generations (A), and vice versa. The equation doesn't let the current generations off the hook, if they care about their children and grandchildren. It shows that lowering the net taxes of current generations requires raising the net taxes of their children and grandchildren. It appears to be a zero sum game, as long as C + D (the government sector's liability) stays the same. There is no free lunch. The burden is the burden; someone will pay it, sometime. If you want to see this argument presented better and in more detail, buy the book.

Another novel feature which this framework develops, and which the book claims is responsible for much confusion in the debate over issues such as Social Security and Medicare, is that the equation holds no matter what language is used to label its terms. The authors call this *fiscal relativism*. The basic idea is that each country has a real invariant fiscal policy, meaning an arrangement over time between the generations reflected in the values of the intertemporal budget constraint, but that the language of discussion can take many forms. The radical expression of this idea in the book captures it best: "… a country can run whatever fiscal policy it wishes, including whatever generational policy, while reporting absolutely any time path of deficits or surpluses" (p. 76). In other words, reports of fiscal deficits, surpluses, program bankruptcies, etc. are meaningless, because they are alternative ways of linguistically labeling the elements of the intertemporal budget constraint, which is unforgiving. If you don't believe this, but are open to being convinced, buy the book. This should be especially intriguing to teachers of macroeconomics.

Kotlikoff and Burns do not spare the politicians of either major party in their analysis of how we got in this mess. Famous names, like Nixon and Clinton and Bush (both of them), are part of the brew of villains, and the contributions of both political parties to the non-solutions of the problems are highlighted.

The book begins with a hypothetical (after reading the book, I'm not sure it's hypothetical) description of the United States in the year 2030 in the prologue, on pages xi and xii:

> *You see a government in desperate trouble. It's raising taxes sky high, drastically cutting retirement and health benefits, slashing defense, education, and other critical spending, and borrowing far beyond its capacity to repay. It's also printing tons of money to "meet" its bills.*
>
> *You see major tax evasion, high and rising rates of inflation, a growing underground economy, a rapidly depreciating currency, and more people exiting than entering the country.*

> *They're leaving because they're sure things will get worse.*
>
> *You see political instability, unemployment, labor strikes, high and rising crime rates, record-high interest rates. You see financial markets in ruin. In short, you see America plunging headlong toward Third World status.*

The authors say their motivation for this book is simple: "… we're fathers. We love our children" (Prologue, p. xiii). Another motivation is their conviction that it's time to "earn our titles — to act like adults by taking charge, at long last, of a very dangerous situation and beginning the serious task of protecting our beloved progeny" (Prologue, p. xiv).

The book is well researched and loaded with the relevant facts, which are presented early and effectively in the argument. The argument is persuasive overall. Public and private solutions are offered, which are at least feasible, if not in every case, likely to become a political reality. And in a worst case scenario, where the politicians continue to do too little too late, you are offered some personal financial responses, which may help you somewhat.

If you are interested in intergenerational equity (concern for your children and grandchildren) or your own retirement prospects or public policy toward the elderly or tax design issues or inflation in the future or the provision of medical care by the public sector in the future, then this book is for you. If you are vaguely and uncomfortably aware of problems with Social Security, Medicare, and Medicaid and want to learn more, this book is for you. If you would like to know how to think better about these problems of public policy, this book is for you.

As Christians, should we be concerned with the concerns of this book? I think the answer is yes. St. Paul certainly admonishes us to be responsible for our immediate families. Of course, the unborn are not yet part of our immediate families. Also, the Scriptures are clear about responsibilities to the poor and infirm of all ages, and there is a pervasive concern about justice in society. Does this justice extend to future generations? It certainly extends to our "neighbor," the living. Perhaps it even extends to future generations, many of whom will also be counted among the (communion of) saints.

Members of the CBFA will be interested in this book, I believe, because we will see in it a societal "missing the mark," a violation of

God's justice, an outcome of our sinful nature, individually and collectively, toward our fellow human beings, especially the poor and the elderly, of both present and future generations. At least that response occurred to this reviewer. After all, if we desire to love our neighbors as ourselves, we will not tolerate robbing, or burdening the young to pay the old, or more pointedly, robbing our children to pay ourselves.