

Testimony by Kent Smetters for the Subcommittee on the Constitution of The United States House of Representatives. Submitted on March 3, 2003, for hearing on March 6.

Thank you Chairman Chabot and members of the Committee for the opportunity to speak on The Balanced Budget Amendment, H.J. Res 22. I support practically any effort to make it harder for one generation to pass large fiscal burdens to future generations, especially when it is not due to a recession or war. So I applaud the supporters of H.J. Res 22 in their efforts.

In order to significantly increase the effectiveness of this Amendment, I would, though, urge you to *first* reform the flawed cash-flow accounting system that is currently being used by the federal government and upon which H.J. Res 22 is necessarily based. The government reports that the national debt in 2003 was about \$3.8 trillion in the form of government “debt held by the public.” But that number ignores massive imbalances in the Medicare and Social Security programs and the government’s other programs. When the liabilities associated with those programs are taken into account, the nation’s fiscal policy is currently off-balance by over \$43.4 trillion in present value, a number that is not reported in standard budget documents. So, a balanced budget amendment that fails to include the present value of the future shortfalls would miss over nine-tenths of the burden that *must* be paid in the future in the form of tax increases, benefit cuts, or both. In fact, by focusing *only* on the traditional measure of debt, as does H.J. Res 22, it could actually make it harder to reduce the true total liabilities facing our country.

In sum, I support an amendment to control the burdens being placed on future taxpayers. But I would urge supporters of H.J. Res 22 to go even further and include *all* of the liabilities that are currently “off the balance sheet” in the government’s current accounting.

Focusing on the Traditional Debt Measure Misses Massive Burdens on Future Generations

As of January, 2003, the public held about \$3.8 trillion of government debt. But that statistic only reflects the excess of past government spending over past revenue. To be sure, less debt is a good thing since it requires less future debt service. But it says very little else about the future. For example, a person who is currently free of debt still faces a problem if his future monthly rent is projected to consistently exceed his monthly income. Similarly, U.S. fiscal policy is promising current and future generations many more benefits than can be afforded.

Here are the numbers. Table 1 shows that projected future spending across all federal programs plus the amount of debt currently held by the public exceeds projected future revenue by \$43.4 trillion in present value, as of 2003. That imbalance is over *11 times* the \$3.8 trillion debt held by the public that the government officially reports. \$35.5 trillion of this \$43.4 trillion imbalance stems from Medicare (Parts A and B) alone while Social Security accounts for another \$7.2 trillion. The rest of the government is in relatively good shape and has an imbalance of only \$0.68 trillion. These estimates were made with a detailed model developed by Jagadeesh Gokhale and myself during our time in the Bush Administration. They conform to the Administration’s newest economic and demographic assumptions, as just released in the President’s 2004 budget, and they incorporate all of the President’s new *proposed* policies, including, for example, his new tax reduction plan and prescription drug plan.

By “present value,” we mean that all future spending and revenue are not only reduced for inflation but are additionally discounted by the government’s (inflation-adjusted) long-term borrowing rate. This calculation allows us to determine how much money the government must come up with *immediately* in order to put fiscal policy on a sustainable course. Alternatively, the government must make cuts or increase revenue totaling *more than* \$43.4 trillion in *future* years so that, when discounted to today, the sum of those cuts and extra revenue equals \$43.4 trillion.

The current fiscal imbalance is so large that it needs to be put into context. As an example, Table 1 shows that the government could, in theory, put the country on a sustainable course by raising the payroll tax on all uncapped earnings by 16.3 *percentage points* starting in 2004 and lasting *forever*. That would forever more than double the amount of taxes that are already being paid by employees to the Social Security and Medicare systems *and* the dollar-for-dollar matching paid by their employers. But even this calculation is conservative in that it assumes that taxes are raised on *uncapped* earnings, which is a larger tax base than used by Social Security. If capped earnings were taxed, an even larger tax rate would be needed.

Waiting just *four* years (until 2008) to implement this type of tax hike would require a permanent tax increase of 17.4 percentage points to close an even larger imbalance of \$51.5 trillion. The fiscal imbalance grows by about \$1.5 trillion *each* year between 2004 and 2008 (Table 1). That number is about *ten times* the deficit that the government officially projects for 2004. As with government debt, the fiscal imbalance grows with interest if no reforms are taken.

Such tax increases, of course, would probably put our economy into a tailspin. And so the above example is not intended as policy advice. But these calculations show the magnitude of the current fiscal imbalance and emphasize the need for real reform today. The longer the delay in reforming the nation’s fiscal policies, the more drastic are the changes required.

Let me describe the current \$43.5 trillion shortfall another way. Instead of raising payroll taxes, suppose we eliminate *half* of the rest of the federal government in 2004 except for Social Security and Medicare. In particular, we eliminate half of the federal government’s spending on the military, homeland security, roads, education, veteran’s affairs, agriculture, labor affairs, NASA, commerce, law enforcement, Medicaid, etc. – everything except for Social Security and Medicare. And we do this not just in 2004 but *forever*. Also suppose that we don’t change federal taxes so that people continue to pay taxes as projected. Now, for example, the \$150 billion deficit projected for 2004 would turn to a \$600 billion surplus! That sounds like a lot of money. But we would still accumulate surpluses too slowly over time. In particular, we would still be left with a fiscal imbalance of about \$3.2 trillion. In other words, *shutting down half of the rest of government forever is not enough to put the U.S. fiscal policy on a sustainable course*.

We need to do more than just balance the budget today. We need to make large changes that place Social Security and Medicare, in particular, on a sustainable course in order to avoid placing huge burdens on future generations in the form of higher taxes or reduced benefits.

The Focus on the Traditional Debt Measure Makes it Harder to Reduce Liabilities

And so why don't we see real reform yet? The reason is that, unfortunately, the government's budget documents are not forward looking. The \$43.4 trillion imbalance is not shown in the official budget. Instead, the budget directs the attention of the public and policymakers to the level of government debt, which, in turn, creates a bias against reform.

To understand the budget's current bias against reform, suppose that individuals are given the option to invest some of their payroll contributions into personal accounts that they would own and control. In exchange for this option, a person's Social Security benefit is reduced one dollar in present value for each payroll dollar invested. The retirement benefits of those choosing personal accounts, therefore, would be composed of reduced Social Security benefits plus additional income derived from their personal account assets.

Because those currently covered under Social Security's pay-as-you-go system must still be paid their benefits, government borrowing would increase. Under the traditional focus on government debt, therefore, this reform would *appear* unfavorable. But debt interest is just one component of the government's liabilities. The government's liabilities also include future Social Security benefits, which would decrease under this reform. In fact, future Social Security liabilities would decrease by exactly the same amount as the increase in the debt. The government's true financing position, therefore, would remain *unchanged* by this reform.

In other words, current discussions about reform start from a *biased* position since even a neutral reform looks bad under current budgeting. In fact, the government's failure to properly account for future shortfalls is *the* culprit behind the popular myth that creating personal savings accounts requires a large "transition cost." As the above reform experiment shows, it is possible to give people choice and control over their assets without any transition costs when *properly* measured. Of course, a "transitional investment" is needed to actually increase national saving.

Now let's drive the point home by modifying this example. Suppose that future Social Security benefits were now reduced by a little *more* than one dollar for each dollar of payroll a person invests into her personal account. This example is similar to Model 1 of the President's Social Security Commission. Many people might choose this plan in order to have more control over their retirement resources, freeing them somewhat from a risky government plan. But from the perspective of policymakers, this reform would also increase the government's debt since the government still needs resources in order to meet current benefit obligations. The government's true fiscal imbalance, however, would actually *decline immediately* under this plan because future Social Security obligations would fall by *more than* the increase in government debt.

The traditional focus on government debt, therefore, creates a bias in decision-making against potential reforms that could actually *improve* the government's financial position. A more complete accounting, which explicitly recognizes the future net obligations of Social Security and Medicare as well as the rest of government, would help remove this bias. Hence, before the Constitution is amended to balance the budget, the government's outdated accounting methodology needs to be reformed to include future liabilities as well.

Improving the Government's Accounting Methodology

Table 1 captures the key ingredients that any thorough budget measure must include. Table 1 has three key features:

1. It decomposes the fiscal imbalance into that On Account of Living and Past Generations as well as that On Account of Future Generations.
2. It covers all government outlays and revenue sources.
3. It discounts federal outlays and revenues across all future years.

Let me expand on each of these three points.

Generational Decomposition of Fiscal Imbalances

Table 1 shows that Social Security's \$7.2 trillion imbalance as of 2003 is caused by large transfers to *living and past* generations. In particular, past and living generations are projected to receive \$8.9 trillion more in benefits in present value than they have paid and will pay in taxes. In other words, the government promised these generations much more in the way of benefits than it collected from them in taxes. In contrast, future generations are projected to pay \$1.7 trillion more in taxes in present value than they will receive in benefits, and so they help reduce the imbalance a little bit. But their net contribution of \$1.7 trillion is not enough to overcome the \$8.9 trillion "overhang" left over from the windfall given to past and current generations. For Social Security to fully return to balance, living and future generations must receive fewer benefits and/or pay more taxes equal to the difference, or \$7.2 trillion, in present value.

In sharp contrast, Table 1 also shows that a majority of Medicare's imbalance as of 2003 is on account of *future* generations. Future generations are projected to contribute \$19.6 trillion to Medicare's total imbalance of \$35.5 trillion while past and living generations contribute about \$16 trillion. The reason that future generations contribute more to Medicare's fiscal imbalance is due to the projected rapid growth in future medical expenses per capita. As with Social Security, either current or future generations must receive fewer benefits or pay more taxes – \$35.5 trillion worth in present value in this case – in order to restore Medicare to sustainability.

At first glance, one might think that this generational decomposition is just "extra information" that is not crucial to the creation of an honest budget measure. That conjecture, though, would be very wrong. The decomposition information serves two related purposes:

- (i) THE GENERATIONAL DECOMPOSITION REVEALS FUTURE BURDENS THAT WON'T BE DETECTED BY EITHER THE FISCAL IMBALANCE OR DEBT MEASURES.

The fiscal imbalance measure only indicates the degree to which policy is *unsustainable*; it, alone, does not indicate future burdens. Without the generational measures, policymakers could still create large future burdens in a hidden manner. So, all the measures are needed.

As an example, suppose the U.S. Congress increased Medicare benefits and financed it by hiking payroll or other taxes by an equal amount each year. In other words, this new benefit is financed on a pay-as-you-go basis. This policy would not change Medicare's fiscal imbalance because the new outlays are exactly matched by new revenues. As a result, the federal government's total fiscal imbalance would not change either. The debt held by the public would also not change since the new benefit is exactly financed by new revenue.

But this policy would still reduce the resources of future generations. The reason is that living retirees at the time of the new policy would gain from the new benefit for which they paid nothing during their working years. Also, many older workers at the time of this policy change would gain since they only have to help finance the new benefit for an abbreviated amount of time. Some younger workers and most future generations, however, would be worse off because they must pay for the benefit during a larger fraction of their working life. Since their payroll contributions are being transferred to the elderly rather than saved and invested, they lose a large amount of investment income that could have been derived from these resources.

In the context of Table 1, this new policy would increase Medicare's imbalance On Account of Living and Past Generations by the same amount as it would decrease Medicare's imbalance On Account of Future Generations, leaving its overall fiscal imbalance unchanged. In other words, living and past generations would receive a windfall that is directly offset by reducing the resources available to future generations. This redistribution can be captured only by showing the contributions of different generations to the overall imbalance.

- (ii) THE GENERATIONAL DECOMPOSITION ALLOWS POLICYMAKERS TO MAKE MORE INFORMED DECISIONS WHEN DECIDING AMONG DIFFERENT SUSTAINABLE FISCAL POLICIES.

We can think of informed fiscal policymaking as involving two sequential steps. First, policymakers must decide on the set of possible fiscal policies that will place the nation's fiscal policy on a sustainable path, i.e., produce no total fiscal imbalance. The range is large. For example, policymakers could increase taxes, reduce benefits, or a combination of both. Also, these changes can be made immediately; alternatively, even more drastic changes could be made in the future. However, while each of these approaches can be used to produce a zero fiscal imbalance, each approach will typically yield a very different impact on the resources of each generation. For example, deciding to start decreasing the growth rate of Social Security and Medicare benefits today will be much more beneficial to future generations than increasing taxes over time. So the generational decomposition information helps policymakers decide among these options. The second step, therefore, is for policymakers to choose the specific plan among the set of sustainable policies that they believe produces the best tradeoff between generations.

All Sources of Outlays and Revenues

Another key feature of the budget measure shown in Table 1 is that it includes all of the federal government's sources of outlays and revenues. At first glance, it might seem necessary to only include the Social Security and Medicare programs since those programs are the ones in the most trouble. But that approach would be a major mistake for two related reasons.

- (i) REPORTING ONLY THE IMBALANCES IN THE SOCIAL SECURITY AND MEDICARE PROGRAMS WOULD ALLOW FOR BUDGET MANIPULATION.

Suppose, for example, that legislation were passed that committed some of the future general tax revenue to the Social Security and Medicare programs. Under the accounting statement shown in Table 1, the total federal fiscal imbalance would remain unchanged because the "Imbalance of the Rest of Federal Government" would increase dollar-for-dollar with the decrease in the imbalances for Social Security and Medicare. In other words, Table 1 would correctly show that nothing of substance was done by simply redirecting money from one account to another. However, if only the "Imbalance in Social Security" and "Imbalance in Medicare" were shown, it would incorrectly appear that this simple transfer improved things.

Another relevant example is the increase in Social Security payroll taxes during the mid 1980s. While these payroll tax increases clearly reduced the imbalance facing Social Security by increasing the size of the trust fund, a considerable debate among academics has emerged as to whether these payroll taxes really reduced the government's *total* fiscal imbalance. In particular, if the extra tax monies were actually spent by the rest of the government then any reduction in Social Security's imbalance may have been offset by an increase in the imbalance in the rest of the federal government. A comprehensive measure, therefore, would make everything clear.

- (ii) REPORTING THE IMBALANCE OF THE REST OF THE FEDERAL GOVERNMENT ALSO ALLOWS FOR MORE INFORMED POLICY DECISIONS

What ultimately matters for the issue of sustainability is the federal government's *total* fiscal imbalance. Still, understanding how that imbalance is divided between the different programs is informative. Notice, for example, that almost the entire federal government's fiscal imbalance is due to the Social Security and Medicare programs. The rest of the government is almost in balance, even though this measure includes the President's most recent tax proposals.

Indeed, Table 1 puts the President's most recent tax proposal in its proper context. Notice that the President's tax proposal does not produce a large Imbalance in the Rest of the Federal Government. Indeed, I hope that the President's plan will someday be followed by even more aggressive measures to reduce the marginal cost of investment in the U.S., including allowing companies to immediately expense all capital equipment in the year purchased. Eliminating the personal dividend tax along with a move to full expensing would effectively shift the U.S. tax system to a progressive-based consumption tax, which would promote investment while still preserving the important risk-sharing value of a progressive tax system.

Of course, there are some people who will argue that any surpluses in the rest of government could be used to help address the problems facing Social Security and Medicare. To be sure, these crippling programs could be helped somewhat in this manner.

Still, there is a certain irony to attempting to bail out Social Security and Medicare using general revenue: the very purpose of using an earmarked payroll tax for these programs – and a fairly regressive tax at that – was to create a *sense* of entitlement of pension-like benefits upon retirement. If we start making significant general revenue transfers, how do we differentiate Social Security and Medicare from a standard welfare program? Are people still “entitled?” Indeed, suppose that the tables were turned so that the Social Security and Medicare programs were in fine shape but the rest of government was not. Would it be okay *then* to raid the trust funds of these programs to pay for the rest of government? Presumably, those advocating general revenue transfers today would oppose robbing pensioners of their “entitlements.”

In any case, we cannot “nickel and dime” our way to saving Social Security and Medicare. We need serious reform of those programs. The costs and benefits of tax reform, national security, and other programs need to be basically decided on their own.

Including all Future Years

Table 1 also reports the imbalance associated with the federal government’s fiscal policy across all future years, and not just over a fixed time window such as the next 75 years. There is widespread agreement among economists – both politically conservative and liberal – that it is incorrect to look at only a fixed time window when computing the fiscal imbalance. All future years must be included: ignoring problems projected for years beyond a fixed time window incorrectly discounts the revenues and outlays in those years at a rate of infinity. To be sure, the President’s 2004 Budget reports an \$18 trillion fiscal imbalance for Medicare and Social Security over just the next 75 years. But that choice was due to a technical issue: the actuaries at the Centers for Medicare and Medicaid Services (CMS) and the Social Security Administration had not yet developed the tools for making longer-term estimates. There is widespread agreement in the Administration, in fact, that a fiscal imbalance measure must include all years.

The Social Security and Medicare Trustees’ Reports show imbalances for those programs as a fraction of payroll for just a 75-year time horizon. Unfortunately, the 75-year horizon, therefore, has become a standard measuring stick in government, and so some historical background might be useful. Before 1965 (and, hence, before Medicare), the Trustees calculated the imbalances associated with Social Security’s “scheduled benefits” based on all future years and not just 75 years. However, at that time, Social Security benefits were not indexed to prices and so they incorporated no inflation protection. Instead, Congress would pass legislation every couple years to increase the nominal value of benefits. As a result, it was widely known that the “scheduled benefits” associated with any particular law would not materialize as the actual level of benefits just a few years later. However, the Trustees are charged with describing the law as it stands, not with how they think it will evolve. But since the Trustees did not have that much confidence in their estimates, they decided to shorten the forecasting period to 75 years. Yet even they agreed that including all future years was the appropriate choice in theory.

Today, retirement benefits, however, are now indexed for prices after a person reaches retirement. Moreover, shortly before reaching retirement, a person's Social Security benefit is automatically increased by an additional amount to account for the real wage growth over his or her lifetime. The practical motivation for using a truncated 75-year window, therefore, no longer exists. Indeed, after a thorough investigation and discussion, the Social Security and Medicare Trustees voted in November, 2002, to begin including in their next Reports the imbalance for the Social Security program, as calculated across all future years. They will have to revisit the issue, though, for Medicare in the future, once CMS develops the ability to make their own estimates.

Incorporating Long-Term Liabilities into the Amendment

I would be delighted to work with this Committee to ensure that a balance budget amendment would focus on a liability measure that is more comprehensive than the backward-looking debt measure. I believe that the following points should be part of any amendment:

1. The Office of Management and Budget as well as the Congressional Budget Office must produce an annual report that captures the information shown in Table 1. Require that Table 1 be calculated for any proposed legislation that would materially affect its contents.
2. For budget reports generated by the OMB, establish a group of Federal Budget Trustees that replaces the current TROIKA structure. Federal Budget Trustees would be composed of six Government Trustees (Director of OMB serving as Managing Trustee; Chairman of the Council of Economic Advisor; Secretaries of Treasury, HHS, and Labor; Social Security Commissioner) as well as an *equal* number of Public Trustees (half appointed by the White House and half appointed by Congress). Each Public Trustee would serve *one* term for *six* years. Each Trustee would have one vote with any action approved by the majority. A similar structure could be implemented for budget reports generated by the CBO. Similar to the current Social Security and Medicare Trustees, the Federal Budget Trustees would be charged with deciding the underlying economic and demographic assumptions. Policy decisions, of course, would still be left to the White House and Congress, respectively.
3. By 2008, Congress must pass legislation that produces a zero Total Federal Fiscal Imbalance. All subsequent legislation cannot produce a positive Total Federal Fiscal Imbalance unless approved by 3/5 of Congress by rollcall vote. Even in the case of a war or a recession, Congress must pass legislation specifying how they plan to pay for the costs in the future in order to produce a zero Total Federal Fiscal Imbalance, unless overridden by a 3/5 majority.
4. After 2008, any *decrease* in the Total Federal Fiscal Imbalance On Account of Future Generations caused by policy changes must be approved by 3/5 of Congress by rollcall vote. This requirement will ensure that Congress does not attempt to achieve a zero Total Federal Fiscal Imbalance by proposing unrealistic benefit cuts or tax increases on future generations. It would also make it harder for Congress to pass pay-as-you-go financed programs that hurt future generations. But, unlike a prohibition on annual unified deficits, this restriction would still allow Congress, for example, to use debt to reduce future Social Security liabilities, and it also permits using automatic stabilizers during recessions.

In Closing

Currently, every State in the U.S. except one has a constitutional or a statutory restriction limiting the ability of those states to run deficits. Between 1970 and 1990, these budget rules appear to have been effective in controlling government spending in those States with the most restrictive requirements.¹ In more recent years, however, many States have effectively raided their public-employee pension funds using so-called Pension Obligation Bonds and other tricks. The evidence from the States, therefore, shows that (i) budget rules can indeed be effective in controlling spending but (ii) these rules must be specified in a way to prevent manipulation.

Similarly, a federal balanced budget amendment to the U.S. Constitution could be effective in controlling the federal government's spending. But unless the scope of H.J. Res 22 is expanded to include all of the government's future liabilities beyond debt service, H.J. Res 22 is open to the same manipulation by future members of Congress. As shown earlier, the debt held by the public is a backward-looking measure that misses over nine-tenths of the burden that *must* be paid in the future in the form of tax increases, benefit cuts, or both. Moreover, by focusing on this traditional but narrow debt measure, H.J. Res 22 could make it harder to reduce these other liabilities unless the scope of H.J. Res 22 is explicitly expanded to include them.

The time for recognizing these liabilities could not be more appropriate. We have seen in the past year how dubious private-sector accounting hides large cash flow shortfalls for a period of time, only to be revealed later at a great loss to pensioners and other shareholders. Congress and the President responded by passing the Sarbanes – Oxley Act of 2002. The federal government now needs to lead by example by getting its own books into shape as well.

Fortunately, some members of the Administration are indeed taking notice. For example, in a November 14, 2002 speech in Columbus, Ohio, Treasury Undersecretary Peter Fisher argued that “we need to bring this forward-looking understanding out of the shadows. We need to shine the same spotlight on it that the annual deficit and total debt receive in our government's budget rituals.” Both The Office of Economic Policy at the U.S. Treasury and OMB are now actively engaged in studying ways to more properly account for the federal government's future liabilities. Also, as mentioned earlier, the Social Security and Medicare Trustees recently voted to show longer-term shortfalls for the Social Security program in their annual report, although they have not yet taken up the matter for Medicare. Finally, Alan Greenspan has recently endorsed reforming the budget to account for future liabilities. But, until future shortfalls are properly documented *and* become the primary basis of analyzing policy, reforms that address the nation's \$43.4 trillion (and growing) imbalance could remain on hold.

So, in sum, I strongly applaud the efforts of supporters of H.J. Res 22. I urge them, however, to go even further and expand the scope of H.J. Res 22 to include all of the federal government's liabilities besides just debt service.

¹ See, for example, James M. Poterba, “State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics.” *Journal of Political Economy*, Vol. 102, No. 4. (Aug., 1994), pp. 799-821. Also see Henning Bohn and Robert P. Inman, “Balanced-Budget Rules and Public Deficits: Evidence from the U.S. States.” *Carnegie-Rochester Conference Series on Public Policy*, 45 (1996), pp. 13-76.

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Table 1: Fiscal Imbalance - Present Values in Billions of Constant 2002 Dollars*

	2002	2003	2004	2005	2006	2007	2008
Imbalance in Social Security	7,022	7,204	7,436	7,692	7,967	8,258	8,569
On Account of Living and Past Generations†	8,701	8,871	9,097	9,347	9,617	9,904	10,212
Future Benefits less Taxes of Living Generations	10,030	10,327	10,688	11,089	11,516	11,966	12,442
Trust Fund	-1,329	-1,455	-1,591	-1,742	-1,899	-2,062	-2,230
On Account of Future Generations††	-1,680	-1,668	-1,661	-1,655	-1,650	-1,646	-1,644
Imbalance in Medicare (Parts A and B)	34,654	35,545	36,629	37,805	39,029	40,307	41,651
On Account of Living and Past Generations†	15,401	15,960	16,628	17,352	18,103	18,888	19,712
Future Benefits less Taxes of Living Generations	15,669	16,239	16,931	17,679	18,461	19,274	20,127
Trust Fund	-268	-278	-303	-327	-358	-386	-415
On Account of Future Generations††	19,253	19,585	20,001	20,453	20,926	21,419	21,939
Imbalance in the Rest of the Federal Government†††	550	676	753	864	1,005	1,153	1,310
Excess Future Outlays over Revenues	-4,587	-4,851	-5,134	-5,323	-5,482	-5,609	-5,736
Future Outlays	80,676	81,701	83,161	84,780	86,503	88,307	90,202
Future Revenues	-85,263	-86,552	-88,295	-90,103	-91,985	-93,917	-95,938
On Account of Living Generations	-32,596	-33,273	-34,141	-34,997	-35,885	-36,781	-37,698
On Account of Future Generations	-52,667	-53,278	-54,154	-55,106	-56,100	-57,136	-58,240
Liability to Social Security and Medicare Trust Funds	1,597	1,734	1,894	2,069	2,256	2,448	2,644
Debt Held by the Public	3,540	3,793	3,993	4,119	4,231	4,314	4,402
Total Federal Fiscal Imbalance	42,225	43,425	44,817	46,361	48,001	49,718	51,530
Memo Items:							
Year-to-Year Change in Fiscal Imbalance	--	1,200	1,392	1,544	1,640	1,717	1,812
Fiscal Imbalance as % of PV of (Uncapped) Payroll	15.9	16.0	16.3	16.5	16.8	17.1	17.4
Fiscal Imbalance as a % of PV of GDP	6.2	6.2	6.3	6.4	6.5	6.6	6.7

† Those born 15 years ago and earlier. In the year 2002, for example, this category includes people born before 1988.

†† Those born 14 years ago and later. In the year 2002, for example, this category includes people born during 1988 and later.

††† Does not include general-revenue transfers for Medicare Part B since these are not included in the imbalance shown for Medicare.

Source: Gokhale and Smetters, Federal Reserve Bank of Cleveland Policy Discussion Paper, 2003.