

CONSUMPTION TAXES, DEFICIT SPENDING, AND INTERGENERATIONAL TAX BURDENS

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INTRODUCTION

The US federal government budget portends trouble. Year after year, Congress after Congress, president after president, the US government deficit has grown. What comes up, must come down. At some point the cost of indefinite debt increases will be too high to ignore, economic reality will shatter political constraints, and a resolution will be foisted upon us.

There are many possible resolutions¹ to the ongoing US deficit crisis, but the most likely and least painful ones will require substantial tax increases. When that time comes, Americans will have to decide who is to bear the burden of these higher taxes. Someone will have to pay, and this Article devises a framework that can help determine who should pay.

Specifically, it suggests something called the intergenerational benefit principle, which states that those with tax burdens that were disproportionately low compared to the benefits from government services they received should be the ones to bear the burden. In this case, it would be the old. Under the intergenerational benefit principle, the fair thing to do would be to tax savings. This Article suggests that the best way tax the savings of the old would be to switch to a consumption which would subject all saving to tax when that saving is converted into consumption.

I. DEFICIT SPENDING AS AN INTERGENERATIONAL TRANSFER

A. Understanding the deficit

The United States government has revenues and outlays. Most of the revenues it collects are from various taxes.² The outlays are partitioned into three categories: mandatory, discretionary, and net interest. Mandatory outlays are required by statute and include social security, Medicare, and other government programs. Discretionary outlays are spending on all other government programs, including notably defense expenditures. Net interest is the amount the US government pays to meet its debt obligations.

¹ Other possibilities include decreasing government expenditures and government debt default.

² Mostly income taxes at the federal level.

When government outlays exceed government revenues in a given year, the United States has a deficit.³ When government revenues exceed outlays, the United States has a surplus. In deficit years, the government must borrow money to balance its budget. Every year since 1968, with the exception of 1999 and 2000, the US has run a deficit. As a result, the US has a large and growing debt. Current deficits are at nearly one trillion dollars annually and are projected to grow. To put that number in perspective, US GDP is roughly 20 trillion dollars and US government expenditures are roughly 4 trillion dollars. Thus US government debt grows by roughly 25% of the US government budget and 5% of the US economy each year. The tax reform act passed in December 2017 substantially increased the deficit.

The deficit is in fact worse than these numbers suggest. The increase in government debt understates the deficit because the payroll taxes that are earmarked for Social Security, Medicare, etc., can be used for current expenditures but this creates an “off balance-sheet” liability. Even if the revenues from payroll taxes are not included, the deficit is still understated because payroll tax revenues are likely insufficient to cover the growing liabilities associated with the programs these taxes fund.

Deficits are neither always good, nor always bad. During a recession, government revenue is sure to fall as most tax bases diminish, including income, sales, property values, and imports. Government expenditures tend to rise during recessions as unemployment claims and other welfare programs experience increased use. Thus, deficits are unavoidable during recessions without increasing taxes or drastic cuts in government programs. Experience has shown that both of these alternatives are likely to be harmful during recessions. The case for running deficits during a recession is even stronger if there are reasons to believe that fiscal stimulus is likely to mitigate the length or severity of the recession. Of course if governments run deficits during recessions, it follows that if they are eventually to balance the budget they must run surpluses during periods of economic growth. This requires discipline that

³ I'm only looking at the federal level—although this is a problem more generally, including at the state level. The problem may be worse at the federal level because many states have balanced budget laws.

has been noticeably lacking in the United States, resulting in deficits that stubbornly refuse to shrink.

It's also worth noting that a government can run indefinite deficits if they are sufficiently small. This can be most easily understood when thinking in terms of a ratio, for example the government debt to GDP ratio. The lower the ratio, the easier it is for the government to repay the debt because most taxes draw from income. The ratio can fall even if the government runs deficits, but only if the deficits grow at a lower rate than GDP. For example, if GDP grows at a rate of 2%, then the debt must grow at a lower rate, say 1.9%. Since GDP falls and the deficit grows during recessions, these must be average rates that include periods during which the deficit shrinks during booms. Notably, unpaid interest grows the debt, so if the interest rate is above the GDP growth rate⁴ then government revenues must exceed non-interest government expenditures for the ratio to fall.

Of course, this is not the situation we find ourselves in. Our debt to GDP ratio has grown substantially over the past several decades. If debt growth outpaces GDP growth for a sufficiently long period of time, the debt will exceed the present value of all possible income, at which point the debt will be impossible to repay. The likelihood of reaching that state of affairs is nil because interest rates will soar and creditors will simply refuse to lend anymore well before then.

The fundamental problem is that the United States has no plan to shrink its deficit which will only grow worse as social security and Medicaid expenditures increase. The deficit need not necessarily be eliminated, but it does have to be managed and shrunk. The direness of the situation is obfuscated because the US government has tremendous borrowing ability. But without a plan in place, US creditworthiness will continue to weaken and borrowing will become ever more painful. The longer we wait, the worse this problem will become. Indeed, we arrived at this point because the solution must be painful to someone. Increasing spending and lowering taxes are easy, while decreasing spending and increasing taxes are difficult.⁵

⁴ Both real or both nominal.

⁵ In the 1970s there was strategic decision by the Republican Party to be the party of

B. The Intergenerational Benefit Principle

The reason that the vast majority of politicians haven't proposed a plan to deal with the deficit is that any plan would require explicitly picking losers. Campaign promises to lower Social Security, decrease defense spending, or—heaven forbid—raise taxes are tantamount to political suicide.

But someone has to pay. The current cadre of politicians may opt no to choose a loser, but that just means that a future cadre must. Future citizens will have to pay for these deficits—hopefully with higher taxes but potentially with lower government spending or worse yet government default and all the concomitant costs.⁶

We should be thinking about how to pay the bill when we're no longer able to put it off. When that time comes, what tax and spending regime should we implement? The standard framework for analyzing tax policies requires balancing the fairness, efficiency, and administrability of the tax. Fairness takes into consideration the value judgments that will underlie the tax system. Efficiency takes into consideration the extent to which the tax will pare beneficial economic activity. And administrability takes into consideration the burdens of complying with the tax and the potential for tax avoidance and evasion.

Of these three, the fairness of a tax is the most contentious. There is no a priori framework that can rank value judgments. It may well be unfair to ask the same of the poor and the rich. But it may just as well be unfair to ask any more of the rich than the poor. To help navigate precarious currents of fairness, scholars have proposed principles. These principles cannot fundamentally demonstrate the superiority of one set of

lower taxes and not the party of smaller government. Voters then had to choose between “Two Santa Clauses”—democrats more government programs and Republicans lower taxes. The Republican intention was to starve the beast and eventually force lower spending. Democrats could not respond by becoming the party of higher taxes. Eventually Republicans became even more likely to increase deficits with higher spending. The largest deficit increases not attributable to cyclical nature of the economy are owned by Regan, Bush II, and Trump—check that.

⁶ Default is a bad option because it would limit US ability to borrow, cause havoc in financial markets, and also cause the dollar to lose its vaunted status that many argue confers many benefits to Americans. I defy anyone to craft a politically viable balanced budget that raises no taxes.

value judgments but they do elucidate the fairness implications of tax policy.

One such principle is the benefit principle, which states that tax burden should be allocated according to the benefits that the taxpayer receives from the government.⁷ There are two underlying justifications for the benefit principle. The first stems from market logic. We should be providing all the government services that citizens demand and no more. If each citizen must pay for exactly all the services that citizen consumes, then the government will provide the efficient level of services. However, this turns out to be problematic because many government goods and services provided have features that make them difficult to provide in a private setting. These features include being non-excludable and non-rivalrous. Indeed, this is why the government provides them and not the private market. The price mechanism that helps determine how much a taxpayer values these goods does not function if the free-rider problem is present. Voting may alleviate this problem, but even in theory there are issues and in reality the market-based logic for the benefit principle falls apart.

Whereas the first justification for the benefit principle stemmed from efficiency, the second justification for the benefit principle is purely a value judgment. The principle says that it's a violation of fairness to ask more of the taxpayer than the taxpayer is given in return. Robert Nozick has the most famous statement of this. He argues that when a citizen pays more than she receives that the citizen is a victim of theft. Given that it is impossible to credibly measure the willingness-to-pay for public goods, "theft" is an unavoidable consequence of government, although "theft" may be limited.

Note that the benefit principle is at odds with any transfer—any policy designed to change the distribution of income, including welfare policy, would violate the benefit principle. Clearly someone getting food stamps and paying no taxes is getting more from the government than they pay in taxes.

⁷ Many have advocated for some version of the benefit principle, including Smith, Nozick, and Mankiw.

Given the impossibility of implementing the benefit principle and the widespread consensus the government should engage in at least some transfers, the benefit principle cannot and should not be the sole principle by which we design a tax system. It may, nonetheless, have a role to play in informing how we design the tax system—there may well be limits to how far the tax system should deviate from the benefit principle.

The question raised here is whether the benefit principle should be applied to determine who should pay for the deficit. Before answering that question, we must decide whether intergenerational transfers are desirable. Recall that transfers are a violation of the benefit principle, but we may well want to transfer from the rich to the poor. In an intergenerational context, the benefit principle also raises similar issues. On average each generation has been wealthier than its predecessors—in which case deficit spending may be a transfer from the wealthy to the poor, albeit not contemporaneous wealthy and poor. I have two doubts that in the current environment we should explicitly have a policy of intergenerational transfers from later and richer generations to earlier and poorer generations. First, intergenerational transfers from richer to poorer generations are difficult to justify while intragenerational wealth and income inequality are growing. From an income distribution perspective intergenerational transfers are not nearly as large a concern as intragenerational transfers. Second, the deficit is too large for these transfers to be sustainable, so even if we think it right to change intergenerational income or wealth distributions, iterative transfers must be smaller.

Analyzing the fairness implications of deficit spending also necessitates determining who benefits from government spending. Government spending can benefit past taxpayers, current taxpayers, or future taxpayers. For example, retirement benefits paid to past-taxpayers clearly benefit past taxpayers; unemployment insurance benefits current taxpayers; and spending money on reducing global warming benefits future taxpayers. The ultimate economic beneficiaries of these government services is likely more complex, but we set those complexities aside because they do not impair the underlying logic of this analysis.

Applying the benefit principle, spending with benefits that accrue to past taxpayers should already have been paid for—that’s the basic idea with social security—if it were operating properly; spending with benefits that accrue to current taxpayers should be paid for with current taxes; and spending with benefits that accrue to future taxpayers should be paid with future taxes. In other words, deficits can only be justified under the benefit principle when current spending will benefit future taxpayers. Since future taxpayers are unable to pay for the spending today, under the benefit principle, that spending should be debt financed. When those future taxpayers who benefit are able to pay, their taxes should be used to pay off that debt.

The question of who benefits from government spending is not easy to answer. Any answer would rest upon a mountain of assumptions and run through a churn economic analysis. I will not attempt that here. I proceed under the assumption that deficit spending redistributes from the young to the old, that the benefit that accrues to future taxpayers is smaller than the tax burden being passed along to them. Given that the deficit is growing, and the fastest growing components are mandatory outlays and net interest, this is not an unreasonable assumption.

II. UNDOING THE INTERGENERATIONAL TRANSFER OF DEFICIT SPENDING

A. Modeling the intergenerational benefit principle

To study the intergenerational redistribution of tax policy, consider the following very simple model. There are 4 people, each living for two periods. In its first period of life, a person earns income and consumes goods. In its second period of life, a person earns no income but consumes goods. People do not earn interest on savings, and total lifetime income must equal lifetime spending. Generations know current and future tax law, and spread their consumption equally between the two periods of life. Thus, if a person earns 100 in period 1, and there are no taxes, she will consume 50 in period 1 and 50 in period 2. The table below charts the choices of 4 people, each earning 100 in their first period of life, over 3 periods when there are no taxes. This table continues on for an arbitrary number of periods both before and after the periods shown.

Intergenerational distribution—no taxes

	<i>Period 1</i>	<i>Period 2</i>	<i>Period 3</i>
Person 0	Income: 0 Consumption: 50	<i>Dead</i>	<i>Dead</i>
Person 1	Income: 100 Consumption: 50	Income: 0 Consumption: 50	<i>Dead</i>
Person 2	<i>Unborn</i>	Income: 100 Consumption: 50	Income: 0 Consumption: 50
Person 3	<i>Unborn</i>	<i>Unborn</i>	Income: 100 Consumption: 50

Now assume that there is a government that collects an income tax and uses the tax revenue to provide goods and services that benefit current taxpayers. In that case the table looks like this.

Intergenerational distribution—taxes, no deficit

	<i>Period 1</i>	<i>Period 2</i>	<i>Period 3</i>
Tax base:	Income	Income	Income
Tax rate:	10%	10%	10%
Gov. Revenue:	10	10	10
Gov. Spending:	10	10	10
Person 0	Income: 0 Tax: 0 Consumption 45	<i>Dead</i>	<i>Dead</i>
Person 1	Income: 100 Tax: 10 Consumption: 45	Income: 0 Tax: 0 Consumption: 45	<i>Dead</i>
Person 2	<i>Unborn</i>	Income: 100 Tax: 10 Consumption: 45	Income: 0 Tax: 0 Consumption: 45
Person 3	<i>Unborn</i>	<i>Unborn</i>	Income: 100 Tax: 10 Consumption: 45

Now assume that the government collects no tax in period 1, but still has expenditures (i.e. it runs a deficit), and the government must run a surplus in period 2 to make up the difference. The table below shows how each person fairs when an income tax is used to collect the surplus. Person 1 never pays taxes and person 2 pays \$20, twice what his burden would have been had there been no deficit.

Intergenerational distribution—with deficit

	<i>Period 1</i>	<i>Period 2</i>	<i>Period 3</i>
Tax base:	Income	Income	Income
Tax rate:	0%	20%	10%
Gov. Revenue:	0	20	10
Gov. Spending:	10	10	10
Deficit:	10	-10	0
Person 0	Income: 0 Tax: 0 Consumption 45	<i>Dead</i>	<i>Dead</i>
Person 1	Income: 100 Tax: 0 Consumption: 50	Income: 0 Tax: 0 Consumption: 50	<i>Dead</i>
Person 2	<i>Unborn</i>	Income: 100 Tax: 20 Consumption: 40	Income: 0 Tax: 0 Consumption: 40
Person 3	<i>Unborn</i>	<i>Unborn</i>	Income: 100 Tax: 10 Consumption: 45

Person 2 pays 20 in tax but only receive 10 in benefits. This is clear a violation of the benefit principle.

B. Solution: tax savings

The question is how we can undo this and achieve fairness under the intergenerational benefit principle. It turns out that deficit spending can be perfectly undone, under the terms of the model, if the government implements a tax on savings for period 2 atop of the 10% income tax. The tax on savings only affects person 1, so that the lifetime tax burden of every generation is still 10.

Intergenerational distribution—with fair deficit repayment

	<i>Period 1</i>	<i>Period 2</i>	<i>Period 3</i>
Tax base:	Income	Income/Savings	Income
Tax rate:	0%	10%/20%	10%
Gov. Revenue:	0	20	10
Gov. Spending:	10	10	10
Deficit:	10	-10	0
Person 0	Income: 0 Tax: 0 Consumption 45	<i>Dead</i>	<i>Dead</i>
Person 1	Income: 100 Tax: 0 Savings: 0 Consumption: 45	Income: 0 Savings: 50 Tax: 10 Consumption: 45	<i>Dead</i>
Person 2	<i>Unborn</i>	Income: 100 Tax: 10 Savings: 0 Consumption: 45	Income: 0 Tax: 0 Savings: 0 Consumption: 45
Person 3	<i>Unborn</i>	<i>Unborn</i>	Income: 100 Tax: 10 Savings: 0 Consumption: 45

The logic behind these tables is the main contention of this paper: a tax on savings can undo the intergenerational redistribution of deficit spending. Under the intergenerational benefit principle, when there is deficit spending the older generation owes a debt to the government. Paying this tax on savings is simply repaying the debt.

C. Confounding factors

The model highlights that, when there is a strong positive correlation between savings and age, taxing savings can undo the

intergenerational transfer caused by earlier years' deficit spending. The world is of course not as simple as these models suggest. The question is whether we can achieve fairness under an intergenerational benefit principle paradigm if there are confounding factors.

1. Interest rates

The first confounding factor is interest rates, which can affect the problem in two important ways. First, the government owes interest on its debt, and, second, the older generation can earn returns on their savings. We can roughly think about these things canceling each other out as indeed they would if any of the older generation used their additional savings to invest in government bonds. Indeed, someone has to lend to the government when it runs a deficit, and it may well be the older generation.⁸ But recall that under the intergenerational benefit principle they also owe a debt to the government, so they're in essence borrowing from themselves. When those taxes come due, the older generation simply turns in the bonds to pay off their liability.

Things get more complicated, but not much, if the older generation isn't investing in government bonds. The main concern would be if the older generation earned a return lower than the interest on the government debt, in which case the deficit would have harmed the older generation. If the return were substantially lower, it may be harsh to impose the benefit principle and demand they pay off the debt. On the other hand, the returns were likely only lower because the older generation invested in a risky asset and got unlucky, and the government isn't typically in the business of insurance investment risk.

2. Non-deficit savings

A more difficult issue is that not all savings came from income that was under-taxed under the benefit principle. Moreover, not all the income was necessarily under-taxed to the same extent. The biggest reason that we shouldn't worry about this is that we've been running deficits for so long, that under-taxed income will not be a big issue. The much larger issue is that not all the income was under-taxed to the same extent. It will

⁸ Actually, in the model, they are the only possible lender.

never be possible to determine exactly how much savings should be taxed to make to accomplish perfect fairness. But if we interpret the mandate of the intergenerational benefit principle to be “get as close as possible to undoing the intergenerational transfer,” then taxing savings will get us much closer achieving fairness than any other tax policy. It is likely the best we can do.

3. Different choices

The biggest issue is that people do not in fact know what future tax law will be—they are not making decisions anticipating that a future law will tax them to undo intergenerational transfers. In that case a tax on savings could be a harmful shock, particularly because these people will tend to be older and less able to earn income. Indeed, we now must deal with competing fairness concerns. These taxpayers have in a sense underpaid their tax liability. Nonetheless, there is something also unfair about an unexpected tax. The best answer I have for this is that the savings tax should be designed being very careful about how it falls on people. Perhaps an exemption or more generally any progressive rate structure would be the best approach. Another possibility is using the transfer system to make sure no one falls through the cracks because of this new law. Note that this also responds to the concern that some of the beneficiaries of intergenerational transfers may have had bad investment outcomes—we can reduce their burden if we need to adhere to some other fairness principle.

III. A CONSUMPTION TAX SOLUTION

The previous part demonstrated how taxing savings could undo the intergenerational transfer of deficit spending and restore generational parity under the intergenerational benefit principle. This section suggests that a consumption tax may be the best solution.

A. A Consumption Tax to Tax Savings

The United States stands apart from other developed countries because it does not raise a substantial portion of its revenue using consumption taxes. This is particularly remarkable because many

economists tout the efficiency benefits of consumption taxes when compared to other taxes. These efficiency benefits include reducing the disincentive to save and lower compliance costs.

The simplest form of a consumption tax is a sales tax on final goods. Whenever a consumer purchases a final good (or service) a tax is levied on that transaction. For example, a farmer grows wheat and sells the wheat to a baker for \$1. The baker then hires an employee for \$1, uses labor from the employee and the wheat to bake bread, and sells the bread to a consumer for \$3. The only transaction that is taxed is the one between the baker and the consumer. The government levies a tax on the \$3 sales price.

A value added tax or VAT is also a consumption tax, but a VAT is levied on all intermediary transactions (except labor transactions) in addition to the retail transaction. The tax is levied on the value added which is the same as taxing sales at each transaction allowing a deduction for previous transactions. Returning to our example, when the farmer sells wheat to the baker, the government would levy a tax on the \$1 of economic value that the farmer added. When the baker sells bread to the consumer, the government would levy a tax on the \$3 sale but would allow the baker to deduct the \$1 she paid to the farmer. Thus the final sale would only trigger a tax on \$2. The VAT has a tax base of \$3—\$1 from the farmer-baker transaction and \$2 from the baker-consumer transaction—which not coincidentally is the same as the tax base of the sales tax.⁹

VATs have the advantage of being self-enforcing. The farmer would prefer the initial transaction to be low value since he will be taxed on it. However, the baker prefers the initial transaction to be high value because he can deduct it from the retail sale on which he pays tax. Barring collusion, the inverse incentives of the farmer and the baker limit evasion.

The Hall-Rabushka flat tax (or simply, the flat tax) is a third variation of consumption tax. A flat tax allows a deduction for payments to labor and also taxes labor income. Returning to our example, the sale of wheat triggers a tax on \$1, the labor income of the employee triggers a tax on \$1, and the sale of bread triggers a tax on \$1, which is the sale price

⁹ We're setting aside all discussion of incidence and burden. While they are important, they do not affect the overall argument.

less deductions allowed for the purchase of wheat and the payment of labor. The flat tax, again, has a base of \$3.

Thus far we have only discussed what the tax base of consumption taxes are but have not discussed rates. The simplest consumption taxes (sales taxes, VATs, and flat taxes) tax all transactions at the same rate. The X-tax is similar to a flat tax but with a progressive tax imposed on labor income.

Consumption taxes tax all prior saving as it is converted into consumption. Indeed, many have suggested that this is a bug of consumption taxes—those who have worked and paid income taxes are now taxed again as they convert their savings into consumption.¹⁰ But under the intergenerational benefit principle, this is not a bug, it's a feature. That is because earlier taxpayers had income taxes that were too low and resulted in deficit. The consumption tax raises additional revenue from these taxpayers.

It also bears mentioning wage taxes, which are in some ways related to consumption taxes. A wage tax is only levied on labor income, so it does not distort investment decisions but also does not fully tax consumption. Because it does not tax the return to savings, a wage tax is often thought of as similar to consumption taxes. Returning to our original example, a wage tax would only have a tax base of \$1, the amount paid to the employee—the remaining \$2 would go untaxed.

B. Other Alternatives

There are of course other ways to tax savings. The government could levy a wealth tax, expand the estate tax, or tax the returns to savings by taxing capital gains, interest, dividends, rents, and royalties. These solutions less politically viable and also less efficient than consumption taxes.

The efficiency benefit that consumption taxes have over income taxes is that they do not tax the return to savings. For example, assume I earn \$100 in a given year, I can earn 10% interest on any savings, and there is a 20% income tax. I owe \$20 in taxes today regardless of when I use that income to consume goods and services. If I consume today, I will

¹⁰ E.g., Slemrod.

owe no additional tax, so I can consume \$80 worth of goods and services. If I consume in one year, I will earn \$8 in interest income, on which I will owe \$1.60 in taxes, so I can consume \$86.40 worth of goods and services next year.

If there is instead a 20% consumption tax, I can still consume \$80 worth of goods and services this year because I will only owe 20% of \$100 in taxes. If I wait until next year to consume, I will have \$110, on which I will owe \$22 in consumption taxes. Thus I will be able to consume \$88 next year.

Under either an income or consumption tax, today's potential consumption is \$80. However, because the income tax taxes returns to savings, tomorrow's potential consumption is smaller under the income tax by \$1.60. This reflects the additional income tax on savings, which distorts the decision to save. The consumption tax, in contrast, is neutral between consumption today and consumption tomorrow—either way, the tax is 20%.

C. A Consumption Tax Solution Modeled

In this section, we use the model from previous sections, to demonstrate how the consumption tax solution would work in practice.

Intergenerational distribution—with fair deficit repayment

	<i>Period 1</i>	<i>Period 2</i>	<i>Period 3</i>
Tax base:	Income	Consumption	Income
Tax rate:	0%	11% ¹¹	10%
Gov. Revenue:	0	20	10
Gov. Spending:	10	10	10
Deficit:	10	-10	0
Person 0	Income: 0 Tax: 0 Consumption 45	<i>Dead</i>	<i>Dead</i>
Person 1	Income: 100 Tax: 0 Consumption: 45	Income: 0 Tax: 10 Consumption: 45	<i>Dead</i>
Person 2	<i>Unborn</i>	Income: 100 Tax: 10 Consumption: 45	Income: 0 Tax: 0 Consumption: 45
Person 3	<i>Unborn</i>	<i>Unborn</i>	Income: 100 Tax: 10 Consumption: 45

The consumption tax taxes the savings of Person 1 when he converts his savings to consumption and in that way undoes the deficit. The consumption tax also extracts the correct amount of tax from Person 2. Note that after the government debt is eliminated, the government must revert to an income tax or Person 2's lifetime burden will be too high.

A perhaps more realistic scenario would be to implement a consumption tax doesn't entirely undo the government debt in one period but nonetheless increases the tax burden on earlier generations. In the simplified model this might happen with a 7% tax on consumption that is

¹¹ The correct tax is 11% because $11\% \times 45 = \$10$. The rates on consumption taxes are higher because they are usually listed as tax exclusive rates and income tax rates are usually listed as tax inclusive rates.

paid by enough generations until the deficit is undone. This has two advantages over undoing the deficit in one period with an income tax. First, some of the burden does fall on earlier generations, even if they are undertaxed. Second, the burden that does not fall on earlier generations is spread out across a greater number of generations. This could be justified if the harm from deviations from the intergenerational benefit principle increased with the square of the deviations themselves. In that case, the optimal policy would be to spread the burden out across many generations, if the correct generations could not be taxed appropriately.¹²

CONCLUSION

This Article addresses the politically sensitive topic of who should pay to reduce the deficit. It makes the argument that those most responsible for past deficits are the best candidates. Doing so is fair under what this article calls the intergenerational benefit principle. This Article further argues that the most appealing policy for achieve this aim is to use a consumption tax.

¹² What does this do for incentives?