Social Security and the Baby Boom. Analysts often comment that the U.S. Social Security system is in trouble because of the large size of the 'baby boom' generation. Consider a society in which there is a single generation, born at date t, that is larger than both the generations before it (born in periods $t-1$ and earlier) and the generations after it (born in periods $t+1$ and later). Discuss what the generational accounting framework says about the effects on various generations from such a 'baby boom,' in a Pay As You Go social security system. (Specifically, compare a policy that keeps per-capita benefits constant across generations to a policy that keeps per-capita taxes constant across generations).

Answer:

> If taxes when young are kept constant, then benefits of the old generation must adjust to the size of the revenues from the young. This means that when the boomers are young, benefits for their parents will be large, and when the boomers are old, their own benefits will be small because the small bust generation will not be paying much in aggregate.
>
> If benefits when old are kept constant, then taxes on the boomers when they are young will be low (because there are so many of them, the tax rate does not need to be high to raise the revenues necessary to pay the benefits of their parents), but taxes on the bust generation must be high to finance boomer benefits.