Boston University Economist Calls Out Congress on Enormous Fiscal Gap

During his annual trek to Washington, D.C., to lecture Congress on its spendthrift habits, Boston University economist Laurence Kotlikoff took the gloves off this year. He dressed down Senator Mike Enzi, chairman of the Senate Budget Committee, along with the committee's members:

> Let me get right to the point. Our country is broke. It's not broke in 75 years or 50 years or 25 years or 10 years.
>
> It's broke today.
>
> Indeed, it may well be in worse fiscal shape than any development country, including Greece.

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It isn't just Enzi, or his committee, or the present Congress, that's responsible for a fiscal gap that's vastly larger than that projected by the Congressional Budget Office (CBO). It's the idea that the country can borrow without limit because its past profligacy has not only been ignored but has been papered over by inaccurate and incomplete accounting by the CBO, the General Accounting Office (GAO) and the Office of Management and Budget (OMB). According to these agencies, the national debt held by the public is just 74 percent of the country's economic output, or GDP. Put that way, according to Kotlikoff, the United States is in pretty good shape, and there's not much to worry about.

Said Kotlikoff, "The CBO is, in my opinion, deliberately misleading the public and Congress about our nation's true fiscal condition.... [The real fiscal gap is] 16 times larger than [the] official debt, which indicates precisely how useless official debt [numbers are] for understanding our nation's true fiscal position."

According to Kotlikoff, the government is 58 percent underfinanced. Not only is that worse than Detroit, just before it went bankrupt, it's worse than Social Security:

> The Social Security system, taken by itself, is 33 percent underfinanced. Another comparison is Detroit prior to declaring bankruptcy. The city appears to have been roughly 25 percent underfunded.
>
> Hence, the U.S. is in far worse shape than was Detroit before it went broke.

Kotlikoff uses "fiscal gap accounting" and "generational accounting" in an attempt to get his arms around all the promises the government has made, whether "on books" (such as Treasury bills, notes, and bonds), or "off books" (such as Social Security, Medicare, Medicaid, and the Prescription Drug Benefit). He then compares U.S. government promises to expected government income from all sources: taxes, fees, tariffs, interest payments, payroll taxes, and so forth. The fiscal gap, instead of the highly misleading (he says) number issued by the CBO of some $11 trillion, is really $210 trillion.

The fiscal gap, Kotlikoff told Enzi's committee, "tells us the fiscal burden that will be imposed on today's and tomorrow's children if current adults don't pay more to, or receive less from, the government."

And that gap is growing by $5 trillion a year, not the paltry half trillion the CBO reports. He likens the national debt — the real national debt — to a gigantic federal credit card on which the government is making less than minimum payments every month: "If we fail to pay [even the interest on it], the fiscal gap will get larger."

In 2003, the fiscal gap was $60 trillion, but today, thanks to profligate politicians concerned only about the next election, that gap has nearly quadrupled. Increases in social programs and, especially, the prescription drug expansion bill President George W. Bush signed into law in 2003, have accelerated the country's fiscal gap to mind-numbing size.

It's also put the United States at the bottom of a list of financial stewardship as compared to major European countries. And of that list, the only country with a favorable fiscal gap is Italy. Explained Kotlikoff:

> What explains Italy's … [favorable] fiscal gap? The answer is tight projected control of government-paid health expenditures, plus two major pension reforms that have reduced future pension benefits *by close to 40 percent*. [Emphasis added.]

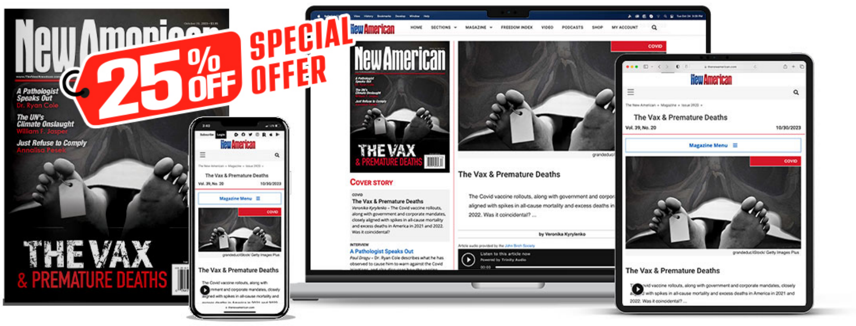
That will have to happen here, too, unless taxes are raised by almost 60 percent, starting tomorrow, says Kotlikoff. Putting it off will only mean greater cuts in benefits and higher taxes in the future.

Politically speaking, nothing of the sort is likely to happen. Politicians run on promises to provide more, better, greater, more expansive benefits. Politicians running on a platform of much higher taxes and much lower government benefits will have a very short and unhappy career.

Part of the answer, according to Kotlikof, is enactment of a full-disclosure bill — the Inform Act — that requires the CBO, the GAO, and the OMB to stop lying and start telling the truth about just how fiscally unsound the government really is. That is based on the premise, espoused by Thomas Jefferson, that an informed citizenry is the first step toward solving the problem. Said Jefferson: "Educate and inform the whole mass of the people. They are the only sure reliance for the preservation of our liberty."

It's working in Italy.

A graduate of an Ivy League school and a former investment advisor, Bob is a regular contributor to The New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics.*



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