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Written by **Bob Adelmann** on June 13, 2012

Deficit to Top $1 Trillion for Fourth Straight Year

On Tuesday the Treasury Department announced that in May the federal government received tax revenues of $180.7 billion, the second highest for the month of May in history. Unfortunately, the government spent $305.3 billion, leaving a deficit of $124.6 billion. So far this year, deficits are at $844.5 billion and are on track to exceed $1 trillion for the fiscal year, the fourth year in a row.

Doing the math, the national debt is growing at a rate of more than $3 billion per day, or about $565 per household every month. At that rate the national debt will hit the debt ceiling of $16.4 trillion just a few days after the November election.

But the debt crisis is even larger than people think, according to a study by accounting giant Deloitte LLP. As the U.S. government sinks further into the sea of red ink, it's going to get more expensive not only to sell its debt to fund those deficits, it's going to cost more to refinance the debt it already has. In fiscal year 2011, interest payments on its debt cost the government $454 billion and so far, through May those payments have totaled $271 billion. Any slight increase in interest rates could result in much higher interest costs. Says Deloitte:

> If interest rates go up by simply 3 percent over the next decade, the additional cost to the Treasury … would equal the peak combined cost of the wars in both Afghanistan and Iraq….
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> If you look at the interest payments going to foreign countries, soon we're going to be spending enough to essentially finance the Chinese military.

In what may qualify as the understatement of the year, Bill Eggers, the lead author of the study, said: "The debt is not something that is going to go away." As the national debt gets larger and more difficult to service, there are five major risks facing the government, according to Eggers:

• First, the debt crisis is far larger than most people think.

• Second, the cost of servicing the increasing debt is going higher, perhaps much higher.

• Third, sucking an increasing amount of money out of the economy to service the debt leaves that much less that could otherwise be productively employed elsewhere.

• Fourth, owners of the government debt could begin to influence national policy in order to protect their own interests.

• Fifth, buyers of U.S. debt might just decide to stop buying it altogether as the government's financial condition continues to deteriorate.

Deloitte's study just may be too conservative. The study's focus is limited just to servicing the national debt and the impact rising interest rates might have on the government's ability to continue to service it. But when unfunded liabilities in the major entitlement programs are considered, the national debt fades into relative insignificance.

Consider that Social Security's unfunded liabilities — promises made compared to ability to keep them — now total $15.7 trillion, while the federal prescription drug program's unfunded liability exceeds $20 trillion and Medicare's unfunded liability is more than $82 trillion, or a total unfunded liability of more than $119 trillion.

Perhaps the most realistic appraisal of the federal government's fragile fiscal condition comes from Boston College economics professor and former senior economist for the Council of Economic Advisors, Laurence Kotlikoff. He said,

> We're broke for a reason. We've spent six decades accumulating a huge official debt (U.S. Treasury bills and bonds) and vastly larger unofficial debts to pay for Social Security, Medicare and Medicaid benefits to today's and tomorrow's 100 million-plus retirees….
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> The government's total indebtedness — its fiscal gap — now stands at $211 trillion, by my arithmetic….
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> To grasp the magnitude of our nation's insolvency, consider what tax hikes or spending cuts are needed to eliminate our fiscal gap. The answer is an immediate and permanent 64% increase in all federal revenues or an immediate and permanent 40% cut in all federal … spending.

When one looks at the present pussyfooting around on the issue of government spending by both political parties, it is clear that nothing of this order of magnitude is likely to emanate from Washington. What is also clear is that buyers of government debt will, at some point, call it a day. And that will be the day of reckoning.