



Written by [Bob Adelman](#) on August 19, 2013

The Atlantic Magazine Downplays America's Debt Burden

When the senior editor of *The Atlantic*, Derek Thompson, tried to [explain away concerns](#) over the massive unfunded liabilities facing the U.S. government repeatedly pointed out by experts, such as Peter Peterson (the former chairman of the Council on Foreign Relations), Boston University economics professor Laurence Kotlikoff, and James Hamilton of the University of California, he used a combination of false assumptions, simplistic reasoning, and frivolous complacency to do so.



It was Peterson's incisive and persuasive book [Gray Dawn](#), published in 1999, that first attempted to warn of the impending crisis. Without immediate and drastic changes to entitlement programs such as Medicare and Social Security, those programs would face bankruptcy, declared Peterson. Declining fertility rates and low tax revenues would exacerbate the problem, according to Peterson. In re-reading *Gray Dawn* in May 2013, professor Doug Erlandson said:

The problem has become worse since Peterson wrote his book. The predicted date of Social Security's insolvency has been pushed up from 2040 (per Peterson's projections) to the mid-2030s. The date that Medicare is projected to become bankrupt is even sooner.

[Professor Kotlikoff](#) presented his findings in a paper [published by the International Monetary Fund](#) in 2010 in which he stated: "The world's largest economy faces a daunting combination of high and rising costs for health care and pension benefits and constrained sources of revenue that will put enormous pressure on its fiscal soundness." One of Kotlikoff's solutions was the immediate doubling of current income tax rates in order to make those two programs solvent. When such a draconian hike was simply ignored as fantasy, the reality of the government's problems was reflected less than a year later when [Standard and Poor's downgraded America's sovereign debt for the first time in history](#).

All of this was just a bit too much for Thompson, who decided to question these conclusions by doing some parsing of definitions. First of all, said Thompson, all that's owed is "not our debt." Part of what is owed is what the government has already spent using borrowed money. That's "real" debt and must be paid back: "Failing to do so would be an illegal and disastrous default."

On the other hand, the "unfunded liabilities" that Peterson and Kotlikoff are concerned about aren't "as real" because "we can change them whenever we want." Fixing Social Security would be easy, said Thompson: "For example, raising the taxable income ceiling and slowing down the growth of benefits could reduce the Social Security gap to zero tomorrow."

The fact that making such changes would be a de facto default on Social Security's promises was ignored by Thompson. And if it were that easy, why hasn't Congress moved to do so, and make the whole problem go away? Thompson doesn't say.

Thompson then said that using a 75-year projection to measure the size of the shortfall between



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expected revenues and promised benefits is “scary” and is “an awfully long time to count anything!” Besides, just think how large the U.S. economy will be in 75 years: “Our GDP will be \$66 trillion in today’s dollars in 2087” which, Thompson implies, ought to be large enough to solve the problem.

And then Thompson questions the assumptions underlying these projections, holding that “1) circumstances change and 2) laws change.” He thinks it’s impossible for anyone to predict the costs of medical care once inventions and breakthroughs unknown today are factored in.

Thompson concludes that because those future promises aren’t really promises after all, and that 75 years is an awfully long time to try to measure anything, and besides a lot of things can happen by 2087, then analyses by Peterson and Kotlikoff are not worth worrying about. He concluded that, in any event, “we have 75 years” to fix any problems that might exist.

Just last month another economics professor, James Hamilton, from the University of California, San Diego, [published his own conclusions](#) about the size of these “unfunded liabilities” that Thompson denigrated. Hamilton estimated that U.S. unfunded liabilities are about to \$70 trillion. Meanwhile, Kotlikoff estimated that the liabilities, counting all planned spending, are about \$200 trillion. Even the Congressional Budget Office has come in with its an estimate: \$38.5 trillion. But its report was laced with disclaimers, including “material weaknesses” and “significant uncertainties” about that estimate.

Thompson has essentially blown off the studies done by serious economists with international credibility and replaced their work with his frivolous and simplistic solutions to a problem that continues to accelerate with each passing day.

A graduate of Cornell University 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. He can be reached at badelman@thenewamerican.com.



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