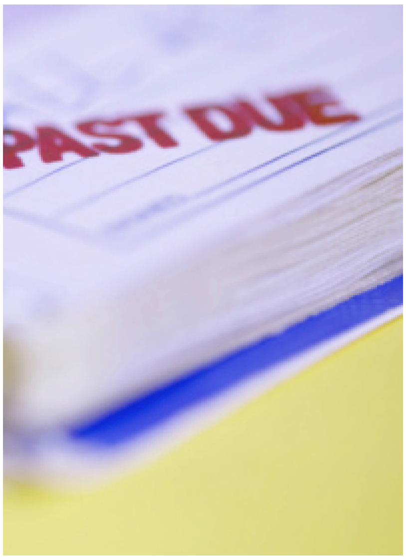
13 Trillion and Counting



When former Comptroller General Bill Walker, who headed the U.S. Government Accountability Office, said two years ago that the "official" debt of the United States "is only around $10 trillion," he wryly suggested that since this number was produced by "government accounting, which … allows one to ignore Social Security, Medicare and the new prescription drug benefit [it was like] ignoring rent, food and utilities in your household budget [and] it will lead to a few bounced checks."

However, he added, "Our real debt is about ten times higher," or about $100 trillion.

At the time this was a breath-taking number, but Walker was just repeating what Richard Fisher, President of the Dallas Federal Reserve, had said just a couple of months earlier.

> Please sit tight while I walk you through the math of Medicare. As you may know, the program comes in three parts: Medicare Part A, which covers hospital stays; Medicare B, which covers doctor visits; and Medicare D, the drug benefit that went into effect just 29 months ago. The infinite-horizon present discounted value of the unfunded liability for Medicare A is $34.4 trillion. The unfunded liability of Medicare B is an additional $34 trillion. The shortfall for Medicare D adds another $17.2 trillion. The total? If you wanted to cover the unfunded liability of all three programs today, you would be stuck with an $85.6 trillion bill. That is more than six times as large as the bill for Social Security. It is more than six times the annual output of the entire U.S. economy….
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> Why is the Medicare figure so large? There is a mix of reasons, really. In part, it is due to the same birthrate and life-expectancy issues that affect Social Security. In part, it is due to ever-costlier advances in medical technology and the willingness of Medicare to pay for them. And in part, it is due to expanded benefits — the new drug benefit program's unfunded liability is by itself one-third greater than all of Social Security's. Add together the unfunded liabilities from Medicare and Social Security, and it comes to $99.2 trillion over the infinite horizon.

When the U.S. Debt Clock struck $13 trillion a couple of days ago, it was just the tip of the iceberg. The clock provides unnerving visual evidence of the precarious nature of the financial position of the United States. The national debt, per taxpayer, is $118,000. With a GDP (Gross Domestic Product) of $14.4 trillion, that puts the country's Debt/GDP ratio at 90 percent. This is approaching "junk" territory (Greece's Debt/GDP ratio is 113 percent and their sovereign debt is rated as junk). But total U.S. Debt, including household debt, business debt, state and local government debt, financial institutional debt, and federal government debt, exceeds $55 trillion, or nearly $700,000 per family. To that number must be added the unfunded liabilities announced by Walker and Fisher, or another $100 trillion, for a total of $155 trillion. This is awfully close to the estimate provided by the Center for Freedom and Prosperity in their YouTube video. In fact, this is such a large number that Moody's is talking about downgrading

U.S. sovereign debt.

In light of such concerns, a look at the remarkable transformation in New Zealand is helpful and encouraging. In a presentation at Hillsdale College in 2004, Maurice P. McTigue, a former member of the New Zealand Parliament, said,

> New Zealand's per capita income in the period prior to the late 1950s was right around number three in the world, behind the United States and Canada. But by 1984, its per capita income had sunk to 27th in the world, alongside Portugal and Turkey. Not only that, but our unemployment rate was 11.6 percent, we'd had 23 successive years of deficits (sometimes ranging as high as 40 percent of GDP), our debt had grown to 65 percent of GDP, and our credit ratings were continually being downgraded.
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> Government spending was a full 44 percent of GDP, investment capital was exiting in huge quantities, and government controls and micromanagement were pervasive at every level of the economy. We had foreign exchange controls that meant I couldn't buy a subscription to *The Economist* magazine without the permission of the Minister of Finance. I couldn't buy shares in a foreign company without surrendering my citizenship. There were price controls on all goods and services, on all shops and on all service industries. There were wage controls and wage freezes. I couldn't pay my employees more — or pay them bonuses — if I wanted to. There were import controls on the goods that I could bring into the country. There were massive levels of subsidies on industries in order to keep them viable. Young people were leaving in droves.

When his reform government was elected in 1984, it identified three problems: too much spending, too much taxing, and too much government control. McTighue said, "As we started to work through the process, we asked some fundamental questions of the agencies. The first question was, 'What are you doing?' The second question was, 'What should you be doing?' Based on the answers, we then said, 'Eliminate what you shouldn't be doing — that is, if you are doing something that clearly is not a responsibility of the government, stop doing it.'"

The results? At the start of the process, the Department of Transportation had 5,600 employees. At the end, it had *53* [not a misprint]. The Forest Service had 17,000 employees at the start, and at the end it had *17* [not a misprint]. The Ministry of [Public] Works initially had 28,000 employees, and when the downsizing process was completed, McTigue himself *remained the only employee*.

When challenged about having killed all those jobs, McTigue made an interesting discovery: "I visited some of the forestry workers some months after they'd lost their government jobs, and they were quite happy. They told me that they were now earning about three times what they used to earn — on top of which, they were surprised to learn that they could do about 60 percent more than they used to!"

> Some of the things that government was doing simply didn't belong in the government. So we sold off telecommunications, airlines, irrigation schemes, computing services, government printing offices, insurance companies, banks, securities, mortgages, railways, bus services, hotels, shipping lines, agricultural advisory services, etc. In the main, when we sold those things off, their productivity went up and the cost of their services went down, translating into major gains for the economy. Furthermore, we decided that other agencies should be run as profit-making and tax-paying enterprises by government. For instance, the air traffic control system was made into a stand-alone company, given instructions that it had to make an acceptable rate of return and pay taxes, and told that it couldn't get any investment capital from its owner (the government). We did

> that with about 35 agencies. Together, these used to cost us about one billion dollars per year; now they produced about one billion dollars per year in revenues and taxes.

In summary, after reform, the size of government as measured by number of employees dropped 66 percent. The government's share of the country's GDP dropped from 44 percent to 27 percent. Federal debt dropped from 63 percent of GDP to 17 percent. The benefits of such radical downsizing are still being felt today. According to Wikipedia, "New Zealand has a modern, prosperous, developed economy [with] a relatively high standard of living with an estimated GDP per capita of US$31,067 in 2010, comparable to Southern Europe. Since 2000 New Zealand has made substantial gains in median household income [and NZ citizens] have a high level of life satisfaction." Marketing ads for New Zealand claim, "New Zealand is now an entrepreneurial power house," is "ranked first as the least corrupt," is the "5th freest economy in the world," and is "first in the world for protecting investors." Floy Lilley calls all of this "a great and jubilant cry of markets and people who have pulled themselves back from the brink. New Zealand said no to death by debt; couldn't we?"