New American

Written by Michael Tennant on June 9, 2011



The \$61 Trillion Debt

That "amounts to \$527,000 per household," the newspaper says, which is "more than five times what Americans have borrowed for everything else — mortgages, car loans and other debt."

The biggest sources of these massive unfunded liabilities are, of course, Medicare and Social Security. With <u>10,000 baby</u> <u>boomers a day turning 65</u>, making them eligible for full benefits under both programs, it's not hard to see why.

Medicare accounts for \$24.8 trillion in unfunded liabilities, or \$212,500 per household. This reflects an influx of 30 million beneficiaries over the next two decades, combined with rising healthcare costs and the prescription drug benefit enacted in 2006. Moreover, <u>writes USA</u> <u>Today</u>,



That \$25 trillion is likely an underestimate, Medicare's actuaries say, because it counts on 165 cost-saving changes in the health care reform law. Many of these are unlikely to occur — such as cutting physician payments 30% by 2012.

Social Security, meanwhile, makes up \$21.4 trillion of the unfunded obligations, or \$183,400 per household. This liability, the paper explains,

represents the difference between all taxes that will be paid and all benefits received over the lifetimes of everyone in the system now — workers and beneficiaries alike. This is the measure corporations and insurance companies use to assess financial adequacy of their retirement programs.

The government, naturally, does not apply the same standards to itself that it applies to private companies. It only counts taxes to be collected from workers over the next 75 years but not the benefits they will receive in subsequent years, thereby making the program's long-term deficit seem much, much smaller than it actually is. Further, by counting the Treasury bonds in the mythical Social Security trust fund, the liability is made to appear even smaller. The feds would never let a private business get away with ignoring future financial commitments and claiming that money it owed itself — "like paying off a car loan with a credit card," as *USA Today* puts it — was the same as actually possessing that cash. It is simply dishonest. "Bernie Madoff-style accounting," Robert Wenzel of EconomicPolicyJournal.com <u>calls it</u>.

Speaking of dishonest accounting that treats IOUs to oneself as actual cash, federal pension plans are entirely funded by government bonds. (Temporarily suspending such funding is one of the ways Treasury Secretary Timothy Geithner was able to stave off hitting the debt ceiling for a few months this

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year.) Between pensions and retiree healthcare, the government has an unfunded liability of \$2 trillion, or \$17,000 per household.

Lest fans of American global hegemony think that the welfare state is the sole source of the nation's long-term financial woes, it must be noted that military retirement and disability benefits contribute \$3.6 trillion, or \$31,200 per household, to the government's unfunded liabilities. George W. Bush's wars in Iraq and Afghanistan, so beloved of many critics of excessive government spending, "have contributed to a 46% increase since 2004 in the cost of pension, medical care and disability [sic] benefits for former service members," according to USA Today. Obama's continuation of these wars and his additional incursions into Pakistan, Yemen, and Libya will only pile on more costs.

Where is the government going to get the \$61.6 trillion — and probably much more since that is the expected cost in 2011 dollars — that it will need to cover all these shortfalls?

In 2009, former Treasury Department economist Bruce Bartlett <u>calculated</u> that "federal income taxes for every taxpayer would have to rise by roughly 81% to pay all of the benefits promised by [Social Security and Medicare] under current law over and above the payroll tax." Taxes would have to at least double to cover all the government's unfunded liabilities, which is politically untenable and would kill the economy if it did take place.

The next option is to borrow the money. But with foreign creditors already skittish about buying more U.S. bonds and America's credit rating teetering on the brink, who is going to loan Washington \$61 trillion more?

In short, there simply is no way that the government can honestly pay everything it has promised, causing Wenzel to remark:

Default is really the only long-term option. It will be done either in straightforward fashion, where the government pays pennies on the dollar for what it owes. Or it will be done in stealth fashion by the Fed printing up dollars to pay for the government obligations, which will create huge price inflation that will screw the average worker and also those on fixed incomes such as retirees.

As bad as the first option is, the second is infinitely worse. Unfortunately, with politicians being notoriously weak-kneed, it is the more likely scenario. This is why the debt ceiling must not be raised and the Federal Reserve must be brought to heel, if not abolished. Only then will spending cuts be forced upon Congress.

Creditors are usually willing to negotiate a debtor's bills down to a level that person can pay, albeit perhaps with some difficulty, but they would never accept payment of the full debt in Monopoly money. Americans concerned about the future of their country should also be willing to accept fewer government goodies paid in not yet fully debased dollars than to demand everything the government has promised them paid in increasingly worthless currency. The former approach stands a good chance of reviving our declining fortunes; the latter will merely sink them even faster.



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