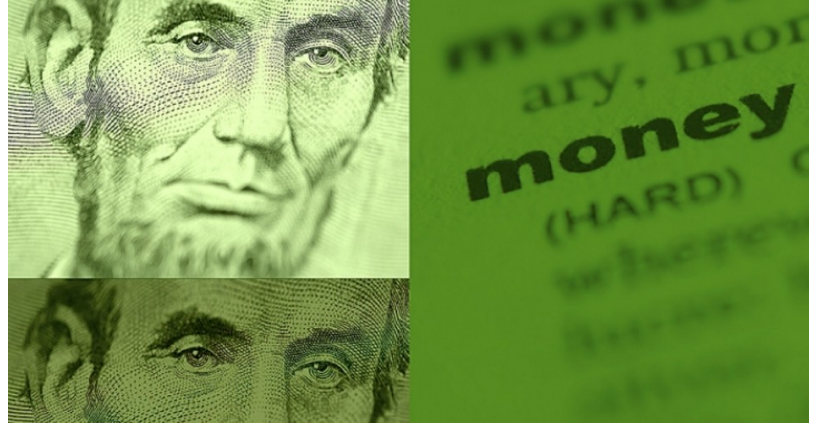




University of California Study: National Debt Is Really \$70 Trillion

James Hamilton, an economics professor at the University of California, San Diego, just published his best estimate of the federal government's "[off-balance-sheet liabilities](#), in which he concludes that the real national debt, [popularly estimated to be \\$16.9 trillion](#), is in fact more than four times larger: \$70.086 trillion. This is because of decisions to leave out certain unfunded liabilities when the national debt is counted. He explains:



This paper examines the growth of federal liabilities that are not included in the officially reported numbers. These take the form of implicit or explicit government guarantees and commitments ... housing, other loan guarantees, deposit insurance, actions taken by the Federal Reserve, and government trust funds....

The biggest items in this category come from Social Security and Medicare which, if current policy is maintained, will require enormous sacrifices from future taxpayers.

He includes the implicit mortgage guarantees of Fannie Mae and Freddie Mac: "With the federal government today being the sole owner of Fannie and Freddie, it seems appropriate to consider both the direct debt obligations ... as well as their outstanding mortgage guarantees [which are now treated] as an off-balance sheet liability." Added together, housing guarantees (\$7.5 trillion), FDIC guarantees (\$7.4 trillion), Social Security (\$26.5 trillion), Medicare (\$27.6 trillion), and other government trust fund liabilities (\$1.8 trillion) come to \$70 trillion. That's an increase of \$13.5 trillion just since 2006, and is growing by more than \$2 trillion a year.

When the Government Accounting Office (GAO) issued [its own report](#) on the government's finances back in January, it was 270 pages long and was filled with disclaimers about its estimates:

Certain material weaknesses in internal control over financial reporting and other limitations ... prevented GAO from expressing an opinion on the fiscal years 2011 and 2012....

Because of significant uncertainties ... GAO was unable to express opinions on [those years'] statements on Social insurance.

Nevertheless what they did uncover appeared on pages 46, 47, and 48, deep into the report: When adding up the unfunded liabilities of all "social insurance," the present value of future expenditures in excess of future expected revenue came to \$38.5 trillion, more than twice what is publicly admitted.

When Rep. Jim Cooper (D-Tenn.) read the report, he said, "The federal government is the last accounting-free zone in America!" Two former congressmen, Christopher Cox and Bill Archer, [were equally appalled](#): "The U.S. Treasury 'balance sheet' does ... not include the unfunded liabilities of Medicare, Social Security and other outsized and very real obligations."

There are two reasons that these huge liabilities are routinely ignored: how the accounting is done, and



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whether Social Security and Medicare are actually government guarantees or not. Sheila Weinberg, director of the [Institute for Truth in Accounting](#) (ITF), says the federal government's accounting system isn't allowed to be used by private companies because it is "so unreliable and possibly misleading" — cash accounting instead of accrual. The government includes Medicare and Social Security liabilities only as they come due, rather than using accrual accounting that counts the entire debt burden when the program is launched. So it neatly ignores future liabilities and makes the national debt appear to be much smaller.

The other reason is that the government itself doesn't consider Social Security or Medicare as guaranteed by the government. According to Hal Steinberg, a member of the Federal Accounting Standards Advisory Board (FASAB), which makes such determinations, Medicare and Social Security, along with veterans' benefits and government employee benefits, are not binding contractual commitments after all:

There is no exchange transaction here. When the FASAB board was looking at the best way to report this, the feeling was not to put this on the balance sheet as a liability [because] it really wasn't a liability.

In other words, these are promises that the government made but which the government can break at any time. And because there is no actual contract to break there is no accounting liability.

Besides, said Steinberg, if those liabilities were added to the nominal national debt, "the number would end up being so large that no one would be able to relate to it." As ITF's Weinberg said: "Politicians aren't stupid. They do these books on a cash basis because they don't want to increase the deficit but they want to get re-elected."

According to the ITF, the real national debt is, at the moment, \$74.3 trillion, and counting.

Even that number may be too small to reflect accurately the promises made versus the revenues expected to fund them. Boston University professor Laurence Kotlikoff [was interviewed in February](#) and was asked by his host:

You're the one who stated that America is rogue and in even worse shape than Greece and Ireland. How so? What exactly do you mean by that?

Kotlikoff: We economists look at all the bills the government has to pay, and in the US case we have enormous bills that have been kept off the books....

Host: You said the amount of the fiscal gap in the United States is, in your estimation, \$222 trillion. This is an astonishing number, which is like three times the world's GDP. This is more than what the world makes!

Kotlikoff: If you add all the spending obligations into the distant future and you compare them with all the taxes, and you include in the spending all the interest payments ... you have \$222 trillion of present value....

This is why we are in worse shape than Greece....

Host: So are they intentionally hiding the enormity of it?

Kotlikoff: They're intentionally hiding this. They've been spending in our country [for] six decades, running a massive Ponzi scheme, taking from young people, giving to old people, and then telling the young people, "Don't worry, you'll get yours when you're old," promising pensions, promising



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healthcare benefits.

The study by Professor Hamilton from the University of California, San Diego, serves as a reminder that, as the debt ceiling draws ever closer, the discussion bound to take place will have little to do with the reality of what the federal government actually owes. That discussion, [expected to begin when Congress reconvenes](#) after Labor Day, will be a sideshow, distracting attention from the real issue: The U.S. government is broke and its promises won't be kept.

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