# accounting shows the United States is broke

Facts got cut prior to taxes

By SCOTT BURNS mailto:scott@scottburns.com

06/01/03 (Dallas News) On Friday, May 16, the word was out: A $350 billion tax cut was a done deal.

So why did the stock market sink that day? Why did it plunge the following Monday, losing 2.5 percent of its value?

One possible explanation is Treasury Secretary John Snow and his comments on the dollar. Another is concern about new terrorist attacks.

But let me suggest a third possibility: In spite of efforts to suppress it, word is getting around that we can't afford a tax cut.

The story starts one night in January, only days after Mr. Snow had replaced Paul O'Neill.

Two men were leaving a restaurant in Santa Fe, N.M. A cellphone rang. The caller told Boston University economist Dr. Laurence J. Kotlikoff that six months of work by two economists was going to be deleted from the president's budget. The budget was due to be published the next month.

I know this happened because I was the second man: Dr. Kotlikoff and I were in Santa Fe working on a book project.

Deleted material

The material to be deleted from the budget document was an updating of generational accounting. Mr. O'Neill had requested an estimate of the true, long-term obligations of the U. S. government.

The estimate would include the formal debt of the U.S. Treasury plus equally serious government promises to provide retirement income and medical care. (Readers who think promises of Social Security and Medicare aren't as serious as U.S. Treasury bond promises should visit the nearest elderly person.)

The resulting information might easily have been lost in a document whose online girth is measured in megabytes.

Except for one thing.

The new accounting shows the United States is broke.

It shows the true obligations of government are 10 times larger than the Treasury debt held by the public. It shows the current value of these unfunded obligations is a mind-numbing $43 trillion.

Recently, I asked one of the project economists, Dr. Jagadeesh Gokhale, who had called Dr. Kotlikoff that night in January, why he thought his work was cut.

Dr. Gokhale, a senior economist for the Federal Reserve Bank of Cleveland, was circumspect. He suggested that the figures were a surprise to the new Treasury secretary.

Here's another interpretation: Mr. Snow's first task was to sell the president's tax cut. The sales job would be awkward if an official government document announced we were already $43 trillion in the hole. (The Federal Reserve, by the way, recently put the net worth of all households at $39 trillion. This problem goes way beyond whether to tax the rich, the poor or the middle-income.)

So the generational accounting figures disappeared from the budget.

But they did not cease to exist. In early March, the other economist on the project, Dr. Kent Smetters, testified before a subcommittee of the House Judiciary Committee.

Dr. Smetters, an expert in Social Security and Medicare, is at the Wharton School at the University of Pennsylvania in Philadelphia.

Asked to comment on the balanced budget amendment before the subcommittee, Dr. Smetters was direct: "I support practically any effort to make it harder for one generation to pass large fiscal burdens to future generations."

Unfortunately, he noted, government cash accounting is a poor basis for a balanced budget amendment.

"The government reports that the national debt in 2003 was about $3.8 trillion in the form of government 'debt held by the public.' But that number ignores massive imbalances in Medicare and Social Security programs and the government's other programs.

"When the liabilities associated with those programs are taken into account, the nation's fiscal policy is currently off-balance by over $43.4 trillion in present value, a number that is not reported in standard budget documents," he told the subcommittee. (Italics are mine.)

The American Enterprise Institute will soon publish a pamphlet co-written by Dr. Gokhale and Dr. Smetters. The draft copy, which I've read, does more than lay out the size of the unfunded liabilities of government. It shows how much the current generation is benefiting at the expense of the next.

It shows, for instance, that past and current generations of Social Security recipients will receive $8.7 trillion more in benefits than they will pay in employment taxes. Our children and grandchildren will pay $1.7 trillion more in employment taxes than they will receive in benefits.

I asked Dr. Gokhale if the figures in the American Enterprise Institute document, Dr. Smetters' testimony and what was supposed to appear in the president's budget were identical. He said there had been some changes in assumptions, but they were very similar.

Republicans and Democrats have distracted us with unending battles between haves and have-nots for decades. Over the same period, they have bankrupted the country.

Perhaps that terror, not currency traders or al-Qaeda, may explain the odd market decline after a tax cut that was supposed to make stocks soar.

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