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Drowning in debt

By Jim Davidson

Several weeks ago, I received a press release from an organization called **Public Agenda** that has really shed some new light, at least for me, on our nation's economic woes. The release was basically touting a new book written by Public Agenda.org editors Jean Johnson and Scott Bittle, titled, "Where Does the Money Go?" This book, published by Collins (\$16.95 in paperback), has been on the top of Amazon.com public policy book lists and is already on its fourth printing in less than a month since its release.

Here is the very pressing issue the book addresses: "The United States is seemingly addicted to spending more than it takes in," the authors assert. With a staggering national debt and expenses that will only grow as more baby boomers retire, they warn, "Today's problems will seem like a fender bender compared to the train wreck the country will face if we don't get the nation's finances under control."

These words are neither politically partisan nor alarmist. Bittle and Johnson fault both Democrats and Republicans. Stay tuned, because at the end of the column I am going to tell you what I believe has caused most of our economic problems.

Here are some of the pertinent facts that are set forth by Mr. Bittle and Ms. Johnson. In 31 of the past 35 years, the federal government has spent more money than it has taken in. (The exceptions were the budget surplus years of 1998 to 2001.) Along the way, the government has amassed a debt that now exceeds \$9 trillion. More than

\$2 trillion of that is owed to foreign banks and other international investors, with China holding \$420 billion and the oil-exporting countries \$113 billion, using figures from the 2006 budget.

"Right now, these foreign investors consider U.S. government bonds one of the safest places in the world to put their money, but they could decide at some point that Europe or China or some other place is a better bet." As the authors observe, "This would be the global equivalent of a store clerk seizing your credit card and cutting it up."

When you think about what we own as opposed to what we owe, here is some very sobering news. On paper, the government's total assets, including facilities and inventory, are valued by the authors at about \$1.4 trillion. If the government had to submit a standard financial statement of the type required of the average home buyer, it would show a negative net worth of \$7.6 trillion.

Mr. Bittle and Ms. Johnson predict that even with continued foreign investment and financial forbearance, the nation may soon find it impossible to fulfill its existing and future commitments to its own citizens in the form of Social Security and Medicare payments. In 2006, Social Security, Medicare and Medicaid consumed 39.7 percent of the federal budget of \$2.6 trillion, compared with 19.7 percent for defense.

In the future, the cost of entitlement programs will balloon as 78 million Baby Boomers age. In 2006, there were fewer than 50 million Social Security recipients:

12 years from now, there will be nearly 70 million. With health care costs rising faster than inflation, the part of Medicare that covers hospital costs for the elderly is already paying out more than it takes in from payroll taxes.

"Unless something changes, we could see a time (around 2040, if nothing is done) when nearly every tax dollar collected will be needed to pay for retirement and health care for the elderly and interest on the debt," the authors warn. "There will be almost no money for anything else, except maybe a basic national defense."

Here is another sobering thought: Just cleaning up "pork" in the budget won't make much difference, as these various items only account for about 4 percent of total government expenditures. To date, I have seen no politician in Washington offer a detailed plan for balancing the budget or reducing the debt, have you?

Mr. Bittle and Ms. Johnson do not have a plan, but here are some suggestions they say will head us in the right direction: raising to 70 the age at which people receive retirement benefits; making people pay more in Social Security taxes, as well as privatizing Social Security ("but very slowly"); rethinking the prescription drug program; redesigning Medicare so that people can shop around for the most effective coverage; and passing a national value-added tax to help pay for Social Security and Medicare. In the final analysis, we would not be in this financial shape if our nation was not drowning in debt.



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Here is why I believe our nation has serious financial woes: Too many politicians, both Democrats and Republicans, whose primary objective is to get re-elected and all that entails, instead of doing what is right and best for our country. For example, if you wanted to get re-elected, would you rather give someone a grant or raise their taxes? There is the answer.