The Boston Globe
May 19, 2003

AN ECONOMIC 'MENU OF PAIN'

by

Laurence J. Kotlikoff and Jeffrey Sachs

Our government is going broke. The feds face bills that are far beyond out capacity to pay – by $44 trillion to be precise. The longer we ignore them, the bigger they get. Yet President Bush is working overtime to deepen our fiscal trap.

This $44 trillion figure is not ours. Nor is it some other academics' calculation. It was produced last fall by economists and budget analysts at the US Treasury, the Federal Reserve, the Office of Management and Budget, and the Congressional Budget Office. The study was ordered by then Treasury Secretary Paul O'Neil and was slated to appear in the president's budget, released in February.

O'Neil instructed his team, led by Jagadeesh Gokhale, Federal Reserve senior economist, and Kent Smetters, then deputy assistant secretary for economic policy at the Treasury, to answer the following question:

Suppose the government could, today, get its hands on all the revenue it can expect to collect in the future, but had to use it, today, to pay off all its future expenditure commitments, including debt service net of any asset income. Would the present value (the value today) of the future revenues cover the present value of the future expenditures?

The answer is no, and the fiscal gap is the $44 trillion. Now, that is big bucks by anyone's definition. It's four times current GNP and 12 times official debt. Imagine everyone in the country working for four years and handing over every penny earned to pay this bill, and you'll grasp its size.

Unfortunately, we can't ascribe the $44 trillion calculation to overly pessimistic assumptions. On the contrary, the assumptions are optimistic with respect to future longevity as well as growth in federal health expenditures, discretionary spending, and labor productivity.

Gokhale and Smetters asked a follow-up question: By how much would taxes have to be raised or expenditures cut on an immediate and permanent basis to generate, in present value, the $44 trillion?

Their "menu of pain" is mind-boggling. Entree A is raising federal income tax collections (individual and corporate) by 69 percent. Entree B is raising payroll tax collections by 95 percent. Entree C is cutting Social Security and Medicare benefits by 56 percent. Entree

D is cutting federal discretionary spending by more than 100 percent, which, of course, is not feasible. Combination platters are also available. For example, we might select quarter portions of entrees A through D. But no matter what combination we order, digesting this medicine is going to be plenty painful.

Why are the nation's fiscal affairs in such a mess? The reason is straightforward. Baby boomers are just five years from starting to collect Social Security retirement benefits and eight years from starting to collect Medicare benefits. When all 76 million boomers are retired, we'll have twice the number of elderly beneficiaries, but only 15 percent more workers to pay their benefits.

If the fiscal gap and its associated menu of pain are unfamiliar, there's a reason. You can scour the thousands of pages of the president's FY 04 budget, and you won't find the analysis. It never made it in. When Secretary O'Neill was replaced last December, the analysis was yanked from the budget.

To be clear, limiting our need to know is not just a Republican responsibility. When it came to publishing a generational accounting analysis in the FY 92 budget, President Clinton's political watchdogs overruled OMB and pulled the same trick. And bankrupting has been a collective effort of all postwar administrations, each of which has cared more about the next election than the next generation.

Our current team leader, President Bush, is doing his part. Taken together, his first tax cut and his proposed second tax cut, which is about to be passed by Congress, account for roughly a sixth of the fiscal gap. The president, an ardent believer in voodoo economics, is convinced his tax cuts will stimulate growth and dramatically raise revenues. Neither economic theory nor economic facts supports this view. In fact, the president is not only burying us in explicit and implicit debt, he's undermining the economy's future performance.

The stakes are now too high for more political games and flaky economic theories. Democrats and Republicans alike need to send our leaders a firm message: Deal responsibly with the coming generational obligations! If we don't, we can look forward to massive cuts in future Social Security and Medicare benefits, tax hikes, high inflation, and bitter political strife. Putting aside the president's latest tax cut would be an excellent start on the road to responsibility.