



America's Mathematically Certain Nightmare

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The economy is past the point of no return and there is nothing we can do about it.

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In coming years, effective tax rates may reach 50, 60, even 70 percent. This will be no socialist paradise. It will be a *national nightmare*, because even with confiscatory tax rates, politicians will still have no choice but to chop Medicare and Medicaid—leaving tens of millions of people without adequate health care. Retirement ages will be raised well beyond 70. And if you are in the military, start looking for another career, because everything from our aircraft carrier fleet to the man on the beat is going to be mothballed.

Sound unbelievable?

On May 26, the *Wall Street Journal* reported on why there will be an economic collapse before America solves its spending problems.

Here it is: One in seven households is on food stamps. Another one in seven Americans receives or lives with someone who gets Medicare. More than one in seven households relies on Social Security. More than *one in four* has at least one person on Medicaid. One in 50 households has a member relying on unemployment benefits. Thousands more have members on disability.

Add it all up and 49.1 percent—almost half—of America lives in a household where **at least one member receives some type of government benefit!**

Did you get that? Roughly half of America is on the government dole. Many households receive more than one government handout.

And if nothing changes, the number is set to soar far higher. There are 20 percent more people (as a percent of households) reliant on the government

today than there were during the early 1980s. The recent recession accounts for only a small fraction of the gain.

Why is this a disaster?

A recent Gallup poll found that almost three quarters of Americans blame the U.S. budget deficit on too much government spending. That's the good news.

Yet when those same people are asked what to cut, majorities don't want to cut anything they are a beneficiary of.

Alexander Tyler's prediction has become reality. According to author Durham W. Ellis, Greek historian Alexander Tyler wrote: "*A democracy cannot exist as a permanent form of government. It can only exist until the voters discover that they can vote themselves money from the public treasury. From that moment on, the majority always votes for the candidates promising the most money from the public treasury, with the result that a democracy always collapses over loose fiscal policy*" (emphasis added throughout)

The democratic process becomes one big race to vote for the politicians promising the biggest handouts. Consequently, government finances continue to erode under the pressure of fulfilling the hundreds of campaign promises necessary only to buy votes. A similar process occurs when spending bills are sent to the House and Senate. To secure the votes needed to pass legislation, each congressman and senator gets his own special spending project included in the bill, to curry his vote.

Do you know that not one administration since 1960 has balanced its budget (President Clinton included)?

The continually elevating federal debt ceiling, which has become a farce, is breached year after year. Last year it was such a fiasco that Standard & Poor's downgraded America's credit rating from its vaunted triple-A status. It was a first in the history of the United States.

Greece, here we come.

According to official government statistics, America's total unfunded liabilities (primarily the amount we have promised voters in Social Security, Medicaid and Medicare) is now over \$61 trillion. But the actuaries at the CATO Institute, using real-world accounting practices that the government demands businesses use, say the shortfall is actually closer to \$119.5 trillion!

Meanwhile, America's total GDP (the value of all the goods and services produced in the entire country for the year) is only a little over \$15 trillion.

Anybody see a problem here?

USA Today reports that if the **government were to actually try to balance its budget**, the typical American household would have had to pay nearly *allof* its income in taxes! That is just to balance the budget, never mind paying down the debt.

"America is already bankrupt. We may not believe it. We may not yet feel its full effects. But we are effectively bankrupt," says U.S. Sen. Tom Coburn in his new book *The Debt Bomb*. "No amount of obtainable growth or tax revenue will be enough. *There simply is no possible way we can finance our long-term liabilities*"

According to Coburn, in less than a decade, under current budget projections, every single tax dollar collected will have to go just to pay Medicare, Social Security and interest on the national debt!

"We'll simply have nothing left to fund every other function of government," he says.

Coburn is clearly an optimist.

Even if starting tomorrow America said it would spend no additional money beyond current outlays for Social Security, Medicare, Medicaid and so on—the nation is still on an inescapable trajectory toward bankruptcy.

America's national debt, not including retirement liabilities, has already passed our GDP. As economists Carmen Reinhart and Kenneth Rogoff show in their book *This Time Is Different: Eight Centuries of Financial Folly*, once a nation's debt reaches 90 percent of GDP, the risk of total economic collapse skyrockets. That's what happened in Greece. It is happening in Spain now.

And if nothing is done, it will happen in America soon too.

America's debt to GDP ratio is now around 103 percent. The big expenses haven't even begun to hit yet—and already the government is forced to borrow one out of every three dollars it spends. And of those borrowed dollars, last year about 40 percent were printed up out of thin air by the Federal Reserve because America couldn't find any borrowers to lend it money at current rates.

America faces a mathematically certain nightmare. Just like in Greece, our economy is growing too slowly and tax revenues do not get close to covering all our spending "needs." Programs will be cut. Austerity will come to America. The government will print money. But as sure as 1 plus 1 equals 2, economic collapse is coming to America. The only question is how soon. ●