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Are We Broke?

On both measures of debt, we are in trouble.

With the United States running a \$1.65 trillion budget deficit and getting ready to hit the \$14.3 trillion national-debt limit, a strange new mantra has surfaced among advocates of big government: We're not really facing a budget crisis.

"We're not broke," writes E. J. Dionne in the *Washington Post*. "We're not broke, and Boehner shouldn't say that we are," echoes the *Washington Monthly*. "The nation is not, in fact, broke," agrees Paul Krugman, obviously having gotten the memo.

Oh, really?

The U.S. government officially classifies its debt in two ways. The first is "debt held by the public," which is primarily those U.S. government securities that are owned by individuals, corporations, state or local governments, foreign governments, and other entities outside the federal government itself. Currently, debt held by the public exceeds \$9.5 trillion, more than 60 percent of GDP, the highest percentage of the economy since shortly after the end of World War II.

The second classification for federal debt is "intragovernmental" debt, which consists of the debts that the federal government owes to itself, such as debt it owes to the so-called Social Security Trust Fund. There are more than 100 government trust funds, revolving accounts, and special accounts, ranging from the Highway Trust Fund and the Oil Spill Liability Trust Fund, holding more than \$4.6 trillion in debt. The largest portion of this is held in the Social Security (\$2.6 trillion) and Medicare (\$372 billion) Trust Funds.

Intragovernmental debt can also be considered somewhat "softer" than debt held by the public, since the government can control when and whether trust-fund debt is repaid by, for example, altering the Social Security benefit formula. But the federal government cannot simply write off intragovernmental debt as inconsequential. As opponents of Social Security reform often argue, the securities held by the Social Security Trust Fund are backed "by the full faith and credit of the U.S. government." Eventually, the securities held by the various trust funds and other accounts will have to be redeemed, just as if intragovernmental debt were held by the public.

If you combine debt held by the public and intragovernmental debt, you arrive at a total federal indebtedness of \$14.1 trillion. The government anticipates running an additional \$200 billion in debt by the end of March, bringing us to the statutory limit of \$14.3 trillion.

But there is a third category of government indebtedness that should be considered: “implicit debt.” Implicit debt represents the unfunded obligations of programs such as Social Security and Medicare — all the benefits promised under those programs in excess of anticipated revenues. Those obligations, of course, represent the “softest” form of debt, in that there is no legal requirement to pay all the promised benefits. But “soft” does not mean debt that can be completely dismissed. Future promises to pay benefits are generally categorized as debt according to Generally Accepted Accounting Principles (GAAP) and other accounting authorities. If the government was required to report its debt in the same way public companies do, those promises would show up as debt. Those benefit payments are called for under current law, and it would take congressional action to change them. Unless and until Congress does so, those obligations exist.

Social Security’s future unfunded obligations now run to more than \$16.1 trillion. Medicare, if one ignores the fictional savings expected under Obamacare, faces a future shortfall of \$89.1 trillion.

Adding all this together, gives us a real national debt of \$119.5 trillion. Try to wrap your mind around that number. \$119.5 trillion — with a “t,” more than 900 percent of GDP — that sure sounds like broke to me.

Of course, Krugman and his compatriots maintain that we are not really broke because the government can always raise taxes — especially on those evil rich people — to pay for all that debt.

But even if one assumes that taxes can be raised without having any impact on economic growth, taxing the rich still wouldn’t get us out of our budget hole — because the hole is quite simply bigger than the amount of revenue we could raise from taxing the rich. To put it in admittedly oversimplified perspective: As noted above, our current obligations total more than 900 percent of GDP. The combined wealth of everyone in the United States who earns at least \$1 million per year equals roughly 100 percent of GDP. Therefore, you could confiscate — not just tax, confiscate — the entire wealth of every millionaire in the United States and still barely make a dent in the amount we will owe.

Krugman and friends also think we don’t have to worry, because the Chinese are still happy to lend us money. As long as we can keep borrowing, we’re not really broke. That’s a bit like saying you shouldn’t worry about your household debt as long as you still have credit cards. Besides, Chinese officials are already wondering publicly about our creditworthiness. How long before the spigot closes?

Maybe Krugman is right. Maybe the tooth fairy will bring the government some money. Maybe President Obama will figure out how to turn lead into gold.

But I don’t think we should make public policy on that basis.

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