

Why entitlements will bankrupt our grandchildren

Posted by **Thomas Mitchell**

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While there are certain politicians who are sticking to their no-need-to-worry-about-the-unfunded-liability-for-20-years mantra and calling people liars, there are people who have looked closely at the numbers and warn something had better be done right now or our children and grandchildren are economically doomed.

As for taxing the rich to balance the budget instead of cutting government spending as so many contend, Michael Tanner, a senior fellow with the Cato Institute, writes that there simply aren't enough rich with enough wealth to cover the gap.

"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 even if there were no disincentives," Tanner writes in a policy analysis titled, "[Bankrupt: Entitlements and the Federal Budget](#)." "To put it in admittedly oversimplified perspective: our current obligations, including both implicit and explicit debt, 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 the entire wealth of every millionaire in the United States and still barely make a dent in the amount we will owe."

As his title implies, entitlements are a huge part of the problem, and, no, those so-called trust funds will not cover us till 2037. That is not even what the Congressional Budget Office meant when it said that.

The CBO points out: "When a trust fund receives payroll taxes or other income that is not needed immediately to pay benefits or cover other expenses, the Treasury credits the fund and uses the excess cash to reduce the amount of new federal borrowing that is needed to finance the governmentwide deficit. That is, if other tax and spending policies are unchanged, the government borrows less from the public than it would in the absence of those excess funds. The reverse is the case when revenues for a trust fund program fall short of expenses. The balances of trust funds at a given point in time are not a measure of resources available to pay future obligations for the respective programs; those resources will need to come from federal revenues or additional borrowing in the years those obligations are due."

Tanner uses a Clinton-era budget document from FY2000 that uses less turgid language to make the same point, "These [Trust Fund] balances are available to finance future benefit payments and other Trust Fund expenditures — but only in a bookkeeping sense. ... They do not consist of real economic assets that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large Trust Fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits."

Tanner concludes ominously, "Unless decisive action is taken, government at all levels in the United States will consume roughly 60 percent of GDP by the middle of the century and rise to unimaginable levels thereafter. A government of that size is a threat not just to economic growth, but to our liberty and our way of life."

How did it get this way?

Wall Street Journal editorial page economics writer Stephen Moore has a partial explanation in his piece in Friday's WSJ titled "[We've Become a Nation of Takers, Not Makers](#)."

"More Americans work for the government than work in construction, farming, fishing, forestry, manufacturing, mining and utilities combined," Moore writes. "We have moved decisively from a nation of makers to a nation of takers. Nearly half of the \$2.2 trillion cost of state and local governments is the \$1 trillion-a-year tab for pay and benefits of state and local employees. Is it any wonder that so many states and cities cannot pay their bills?"

In 1960, Moore writes, there were twice as many manufacturing jobs as jobs with government pay checks. Today that statistic is reversed.

Listen to Tanner on a Cato podcast:

By the way, I am painfully aware of how little Social Security recipients receive.

Find this article at:

http://www.lvrj.com/blogs/mitchell/Why_entitlements_will_bankrupt_our_grandchildren.html?ref=734

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