



America's True Debt – The Fiscal Gap

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Texas Insider Report: DALLAS, Texas – Our country is in far worse fiscal shape than its \$14 trillion — and rapidly growing — official debt suggests. Indeed, that figure measures just a small portion of the government's total liabilities. Why is that?

The answer is there is no answer, and because there is no answer, the deficit is not well defined, says **Laurence Kotlikoff**, a senior fellow with the **National Center for Policy Analysis**.

Generational accounting is a well-established methodology to measure the burden of government on specific generations. A generational account for any given generation measures the generation's remaining lifetime net tax bill as a present value — what the generation will pay net of what it will receive, all valued as of today.

This amount has to cover the government's official debt plus the present value of all future government purchases of goods and services (discretionary spending). If it doesn't, the difference that's not covered is called the fiscal gap.

- The U.S. fiscal gap, based on the Congressional Budget Office's long-term Alternative Fiscal Scenario, is nowhere close to the \$14 trillion official debt.
- Indeed, the U.S. fiscal gap is \$211 trillion — 15 times larger than the official debt.

This means that Congress and the president have been focusing on the molehill, not the mountain, in their recent contretemps over the debt ceiling.

With the retirement of the baby boomer generation, millions will turn to Uncle Sam for Social Security, Medicare and Medicaid benefits — roughly \$40,000, on average, per beneficiary per year. This means the fiscal gap will increase exponentially in the coming years.

The fiscal gap needs to be zero for the United States' fiscal policy to be sustainable, says **Kotlikoff**.

- Achieving this result via tax hikes alone would require an immediate and permanent increase in all federal tax rates (corporate, personal income, excise and estate and gift taxes) of 64 percent.
- Alternatively, the United States could immediately and permanently cut all non-interest spending by 40 percent.