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Scott Burns Columns 2007

Scott Burns Questions about personal finance and investments may be sent to: Scott Burns, *The Dallas Morning News*, P.O. Box 655237, Dallas, TX 75265; faxed to 214-977-8776; or e-mail. Questions of general interest will be answered in future columns.

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U.S. going broke; guess who will pay?

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Thanks to a good accountant, the Burns family tax return was ready a week before deadline this year. Proud of ourselves, my wife and I signed it.

Then we contemplated its enormity. While far shorter than *War and Peace*, the heft of our 40-page return was striking.

So was the amount we paid.

If taxes are "the price we pay for civilization," our payment should help make America the Athens of the 21st century. I'm sure millions of others had similar thoughts.

Unfortunately, the price we pay for civilization will need to rise sharply in the near future. Whatever you paid this year, get ready to pay lots more.

The newest estimates come from two economists, Jagadeesh Gokhale and Kent Smetters at the Cato Institute and Wharton School, respectively. Their estimates of unfunded government liabilities were summarily removed from the president's budget in 2003 as Treasury Secretary Paul O'Neill was ousted and replaced by John W. Snow.

Mr. Snow's immediate job was to sell the second round of tax cuts. The idea wouldn't have gone over very well if an official accounting of government liabilities had revealed that the entire country was stone broke.

Writing in the March/April issue of the *Financial Analysts Journal,* Mr. Gokhale and Mr. Smetters updated their earlier work. Since 2003, things have gotten worse, not better. They found:

•That our government has promised $63.675 trillion more in benefits than it will collect in taxes.

•That "if the federal government confiscated all the land in the United States along with all of its improvements – buildings, highways, plants and equipment, and other durable assets built on it – and sold them at auction to foreign investors, it would still fall more than $20 trillion short in present value of the monies required to satisfy its future budget."

•That the true federal deficit isn't the $200 billion-odd a year discussed in newspapers but nearly 10 times more, $2.4 trillion.

•That without Social Security and Medicare, we'd be running a surplus. The entire problem is the $72.9 trillion in unfunded liabilities of Social Security and Medicare.

•That eliminating all military spending, forever, would only cover about half of the unfunded liabilities of Medicare.

•That just paying for promised benefits would require an immediate new 14.4 percent tax on all payroll. A tax increase that large probably wouldn't be collectible. Work would go underground.

•That the vast majority of the problem can be traced to Medicare. Its unfunded liabilities are 8.5 times larger than the unfunded liabilities of Social Security.

Lest you think Mr. Gokhale and Mr. Smetters belong to the Chicken Little School of Economics, the two economists compare their estimates with figures from the trustees for Social Security and Medicare. The trustees' estimates are $10.9 trillion higher (see the accompanying table).

To put these figures in perspective, the total output of the U.S. economy is now about $12.5 trillion. The Federal Reserve recently estimated the net worth of all U.S. consumers – that's you, me and Bill Gates – at $55.6 trillion.

The economists ask why the credit markets aren't treating the U.S. Treasury like a

poor cousin to General Motors Corp. They suggest four possible answers, but I've got one of my own: Every government in the world does exactly the same thing.

Scott Burns' columns appear on Sundays and Thursdays. Readers can send questions to scott@scottburns.com and visit www.scottburns.com. Questions of general interest will be answered in future columns.