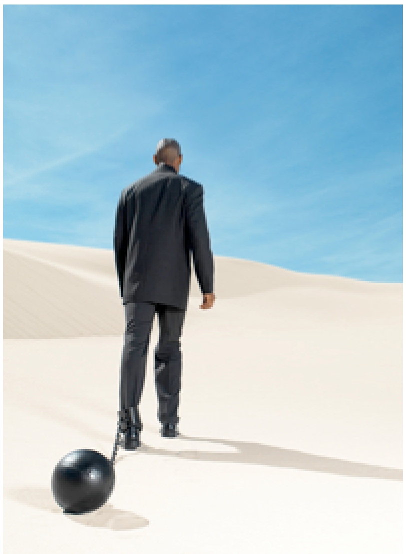
Written by **Jack Kenny** on August 8, 2011

Economist Says National Debt Really $211 Trillion



"We have all these unofficial debts that are massive compared to the official debt," Kotlikoff, a professor at Boston University, said on the weekend edition of National Public Radio's *All Things Considered*. "If you add up all the promises that have been made for spending obligations, including defense expenditures," Kotlikoff said, "and you subtract all the taxes that we expect to collect, the difference is $211 trillion. That's the fiscal gap. That's our true indebtedness."

The main drivers of the real national debt are Social Security and Medicare, funded by the Federal Insurance Contributions ACT (FICA) payments that both employee and employer pay with every paycheck. As the average life span has increased and the elderly portion of the population has grown since the program was adopted in the 1930s, the "contributions" have fallen increasingly short of the "transfer payments" to recipients. Social Security alone will run into the trillions annually in another 10 to 15 years, when an average of $40,000 a year will be due to 78 million baby boomers, Kotlikoff said. "Multiply 78 million by $40,000 — you're talking about more than $3 trillion a year just to give to a portion of the population. That's an enormous bill that's overhanging our heads, and Congress isn't focused on it."

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The "official" national debt of $14.3 trillion amounts to $47,667 for every man, woman and child in America, based on the current population of 300 million. If Kotlikoff's $211 trillion is accurate, the per capita long-term debt obligation comes to more than $700,000.

"We've consistently done too little too late, looked too short-term, said the future would take care of itself, we'll deal with that tomorrow," Kotlikoff told NPR's David Greene. He added, "Well, guess what? You can't keep putting off these problems."

Kotlikoff offered a similar analysis a year ago, when he pegged the real debt at that time at $200 trillion. In a column for Bloomberg, he conceded that the economy will likely be larger in 20 years, but not nearly large enough to meet the nation's Social Security and Medicare obligations without either crippling taxes or devastating budget cuts — or both.

"This is what happens when you run a massive Ponzi scheme for six decades straight, taking ever larger resources from the young and giving them to the old while promising the young their eventual turn at passing the generational buck," he wrote. It will likely end "in a very nasty manner," he said.

> The first possibility is massive benefit cuts visited on the baby boomers in retirement. The second is astronomical tax increases that leave the young with little incentive to work and save. And the third is the government simply printing vast quantities of money to cover its bills.
>
> Most likely we will see a combination of all three responses with dramatic increases in poverty, tax, interest rates and consumer prices. This is an awful, downhill road to follow, but it's the one we are on. And bond traders will kick us miles down our road once they wake up and realize the U.S. is in worse fiscal shape than Greece.

But the situation is not hopeless for the United States, he wrote. "What it can and must do is radically simplify its tax, health-care, retirement and financial systems, each of which is a complete mess. But this is the good news. It means they can each be redesigned to achieve their legitimate purposes at much lower cost and, in the process, revitalize the economy."