

No Money, No Empire

by Charles Whitaker

Forerunner, "WorldWatch," May 2004

Is America destined to lead a globe-encircling empire for years to come? Not if the analysis of Niall Ferguson and Laurence Kotlikoff in their article, "Going Critical" (*The National Interest*, Fall 2003), is correct. Their reasoning: no money, no empire. "Chronically unbalanced *domestic* finance, primarily the result of a mismatch between earlier social security legislation . . . and the changing demographics of American society" will render the maintenance of any American empire impossible.

In just five years' time, 77 million 'baby boomers' will start collecting Social Security benefits. In eight years, they will start collecting Medicare benefits. By the time they are all retired in 2030, the United States will have doubled the number of its elderly population but increased by only 18 percent the number of workers able to pay for their benefits.

The size of these pension liabilities "is so large as to render the U.S. government effectively bankrupt." How big is the government's debt to pensioners? If the federal government could get its hands *today* on all the revenue it could hope to collect between now and 2030, and use that money *today* to pay all projected pensioners' claims up to 2030, the government would still find itself with a *shortfall* of \$45 trillion. That figure is "twelve times larger than the current official debt and roughly four times the size of the country's annual output."

What would the government have to do to generate that \$45 trillion? It would immediately have to "raise income taxes (individual and corporate) by 69 percent, or . . . raise payroll taxes by 95 percent or . . . cut Social Security and Medicare benefits by 56 percent." Or, of course, it could default on pension liabilities. Only a politician intent on political suicide would consider that course of action.

The signs of economic meltdown appear here and there. However, no one, least of all government officials, wants to admit the impending crisis in "generational accounts." Even investors in government bonds seem largely to be in a state of denial. Reality has not yet hit home.

It is only a matter of time before the realities of a \$45 trillion shortfall do. When that happens, "rational gloom" will set in, and the "U.S. economy will likely 'go critical.'" Foreign investors will dump U.S. Treasuries in favor of euro-denominated securities. America, "the much-vaunted 'hyperpower,' would quickly find itself humbled." To meet its debt payments, the government would probably turn to the time-honored trick of printing money, thereby causing inflation, possibly of the triple-digit variety. The nation would enter economic doldrums. America's pretensions of empire would end.

Three steps could help resolve the "generational accounts" imbalance:

1. "Break . . . the link between state pensions and wages." The Israelite nations of Britain, Australia, Canada, Ireland, and New Zealand have already done this. These nations could balance their books "with tax increases of less than 5 percent."

2. Control Medicare costs, which account for 82% of that \$45 trillion shortfall. But, the current President's bribe to gain votes by creating a "fabulously expensive" drug-benefit program indicates how politically tempting such entitlements are. Do not look for sanity in the government's Medicare planning.

3. Privatize Social Security, which would go a long way to filling up the \$45 trillion "black hole." However, AARP and other strong interest groups would assert political pressure to halt proper privatization.

All three options mean sacrifices on the part of seniors, few of whom are in any mood to forfeit a penny of their "well-earned" pensions. In fact, American seniors are on an unprecedented spending binge. "Economic research shows conclusively that the elderly as a group are indeed consuming with next to no regard for their adult children." Expensive retirement communities, transcontinental RV caravans, and ocean cruises are among seniors' favorite pastimes. Since the inception of Social Security about 50 years ago, "consumption per retiree relative to consumption per worker" has *doubled*. Seniors' materialism is reflected in a bumper sticker seen commonly today: "I'm Spending My Kids' Inheritance." All this in defiance of Proverbs 13:22: "A good man leaves an inheritance to his children's children."

In an economic meltdown, a public mood of isolationism would probably gain ground; "discretionary" federal spending would be curtailed. Expenditures associated with nation-building in Afghanistan, Iraq, and Kosovo would be among the first to go. "The decline and fall of America's undeclared empire will be due not to terrorists at our gates nor to the rogue regimes that sponsor them, but to a fiscal crisis of the welfare state. . . . In short, the colossus that currently bestrides the world has feet of clay."