THE NATIONAL DEBT? – JUST GUESS WHAT IT REALLY IS!

Stephen L. Bakke – June 14, 2011

We've Come To Accept What We've Been Told!

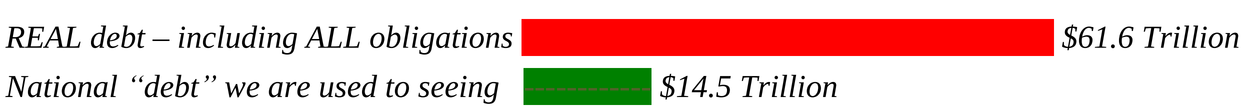
I've done it. You've done it. Conservative political leaders and the conservative media have done it as well. We all have focused on the $14,500,000,000,000 national debt and the annual addition to that total of approximately $1,500,000,000,000. That's all in TRILLIONS friends! And our President and the democrats in Washington, while giving lip service to the debt, don't seem particularly exorcized about continuing to add to that total. They seem to accept the current debt situation as the "new normal"! But I think they actually know that's NOT all there is!

Mallard Fillmore by Bruce Tinsley

If only $14,500,000,000,000 was the total! It's NOT! The truth is actually soooooo much worse! Maybe the "Democrats in DC" are actually on to the truth – hence their blasé attitude about the "14 something" number. I thank a reader who sent me a copy of some of the work done by researcher and columnist Dennis Cauchon on this issue. Thanks to USA Today (can you believe it?) for initially publishing Cauchon's research. Those sources pointed me in the right direction of researching the issue only a bit further, and passing this summary along to you.

Can You Say "Sixty One Trillion, Six Hundred Billion" Dollars ($61,500,000,000,000)?

Friends, this one hit me between the eyes, and it shouldn't have since I claim to be a CPA. I was lulled to sleep by the "paltry" "14 something" number and forgot what every accountant should know about recording liabilities (another word for debt). Let's step through this analysis slowly so I get it right. First here is a graphic comparison of the two amounts being compared:



The difference is "47 something" – but what does that difference represent? Stay tuned!

Step by Step

The impression given by BOTH sides of the aisle is that “14 something” is the amount that, as of this point in time, is being passed on as a financial burden to future generations. So, why is “61 something” the correct amount?

For those who want the “quick and dirty” explanation only, consider these two points:

- Reporting the national debt as only the “14 something” number ignores all the ACTUAL obligations the government has incurred for amounts not yet spent.
- Of our government’s total ACTUAL obligations, only those which have already been funded, by borrowing, are included in the “14 something” number.

If that’s enough explanation for you, stop here or skip to the next section. If not, continue below.

For those who want a little more technical explanation, consider the following:

- I don’t think anyone I know has ever seen comprehensive financial statements for the United States government. If this were readily available, it would include a “balance sheet” showing all assets and liabilities/obligations/debt. The obligations would include ALL AMOUNTS for which we and future generations are obligated.
- In the U.S. (and similarly for other countries) there is a concept called “Generally Accepted Accounting Principles” (GAAP). These are promulgated by the American Institute of Certified Public Accountants (AICPA) and are, for the most part, accepted by the Fed’s “regulatory accountants,” the Security and Exchange Commission (SEC). In cases in which regular GAAP differs from SEC requirements, it generally has to do with **additional** disclosure requirements imposed by the SEC on publicly traded companies.
- The Cauchon/USA Today analysis is a successful attempt to start evaluating our government’s financial position in a manner consistent with the way the Feds evaluate the financial position of corporations in America. That seems fair to me! “What’s good for the goose is good for the gander!”
- According to commentary from the National Center for Policy Analysis, this project was accomplished using STANDARD ACCOUNTING RULES for calculation of amounts since 2004 and using data from Medicare and Social Security annual reports … AND the little known audited financial report of the federal government. (Did you get your copy of that report?) I don’t have the time or inclination to evaluate further the nature of that report or its other implications. You do it and send it to me.
- It is with apologies to accounting experts and purists that I attempt to summarize here something which is very complex – but “here goes.” Entities that prepare financial statements in conformity with generally accepted accounting principles must make accruals (i.e. recognize in the financial statements) for pensions and other “post retirement” benefits (e.g. health care).
- These post retirement benefits are, for the most part, what I am dealing with in this report. Financial statements, presented according to GAAP rules, must include amounts relating to current and former employees post employment benefits. The costs should be recorded during period of service, since that is when the amounts were earned. Under GAAP, we must not ignore these costs until they are paid. They are true obligations far earlier than that.

- This accrual of liabilities/obligations/debt applies not only to federal employees, but also to citizens who, by virtue of their being covered by Medicare and Medicaid (for example) have earned certain retirement benefits. Under GAAP, this obligation should be recorded when incurred by the government and NOT just when it is paid. The traditional “14 something” amount represents only amounts that have now been **paid, and the necessary funds borrowed.** THAT’S NOT GAAP!
- In the final analysis, one REAL difference is that interest is paid on the smaller “14 something” amount, while the difference of “47 something” bears no interest because it has not been spent, and therefore no funds had to be borrowed from citizens, China, etc. But they are obligations nonetheless!

That, in a nutshell, is the “bean counter” part of the discussion.

Now That the Wound Has Been Opened, Let Me Pour On Some Salt! Ouch!

Let’s start with the fact that the national debt from expenditures already made is $14,500,000,000,000. Let’s add to that the TRUE future obligations which haven’t YET added to the national debt – that would be the amount of approximately $47,100,000,000,000. That brings the total TRUE obligations to $61,600,000,000,000. That’s in TRILLIONS friends – a nice tidy sum! Now let’s consider some other details of this problem **(you may want to send small children out of the room):**

- While we have been warned to anticipate an increase in the national debt of at least $1,500,000,000,000 (the 2010 total) in the coming year, adjust your thinking to get your mind around the fact that the total national obligations (that’s the “61 something” number) is anticipated to increase by almost $5,500,000,000,000! Ouch!
- Of this increase, Medicare made up approximately $1,800,000,000,000 in 2010 – and Social Security added a “meager” $1,400,000,000,000. Double Ouch!
- The total unfunded obligations of $61,600,000,000,000 amounts to – HOLD YOUR BREATH and send the small children out of the room – **$534,000 per household!**
- This household total is more than five times what they borrowed for everything else, on average! “Why bother pinching pennies?” some may ask! Good point!
- The unfunded obligation for the federal employees’ pension plan has been funded largely by – guess what? – IOUs from the Federal Government!
- Some of the estimates used in reaching the “61 something” number could actually be understated because of certain questionable assumptions used in the OMB estimates of Medicare costs used in passing Obamacare. We know those won’t be accurate.
- Certain social security assumptions also call into question the adequacy of the estimate. For example when estimating the future costs for future workers i.e. the costs beyond their 75th birthday have been ignored. Also Social Security holds MANY IOUs from the Feds and these apparently have apparently been omitted from some of the estimates.
- In similar fashion, some officials ignore the total of the $14.1 Trillion debt total (those for prior expenditures). Why? Because, they say, it’s closer to $9 Trillion if you take out the portion which is represented by Federal IOUs. Good Grief! Isn’t that like paying off a car loan with a home equity loan and feeling like you’ve reduced your debt?

I just can't get my mind "around" some of this information and illogical thinking! Why does our dilemma just not seem to matter to some? Here's an example of a symptom – Michael Lind, policy director at the liberal New America Foundation's economic growth program, seems to be in denial when he says that there is no near-term crisis for federal retirement programs. He just dismisses the problem and moves on. Try using that argument with the SEC when they say there's a material under-accrual or misstatement! "Them's fightin' words," and non-compliance through misleading financial statements can give rise to criminal charges. And so it goes – on and on!

Just Like the Little Dog in the Travelers Insurance Commercial
… "Trouble! Trouble! Trouble! Worry! Worry! Worry!"

(My faithful assistant Baxter has been pushing me to work a "canine interest" story into one of my reports – OK, Baxter – this is it!)

If you weren't worried before, it's time to start – just like the cute little dog. But should we throw up our hands in frustration and resignation? Of course not! **Let's "get a move on"!**

There's much more on other economic topics coming soon.