Biden's bad dream budget, and more bad news

Steve Bakke April 12, 2022

It's budget time and President Biden delivered his 2023 budget proposal a couple weeks ago, two months late. My review of the proposal disclosed that its ne'er-do-well assumptions and computations would qualify as a "great wonder of the modern world." Total spending is $5.8 trillion, 31% higher than the 2019 federal budget. Over the next 10 years, expenditures are projected to total $73 trillion. Think about that.

The proposal is full of speculative assumptions and rosy projections. CPI is assumed to flatten after 2023 at just over 2.3%. Inflation is assumed to reduce significantly, and the budget is loaded with tax increases. Nevertheless, the national debt in 2032 is projected at $45 trillion. It's hard to believe anything like that could be approved.

Now, about that other bad news. The national debt seems to be growing at the speed of light. In March of 2020, just as COVID was building up a head of steam, the national debt was a "mere" $23.5 trillion. Shocking at the time, for sure. But if that sounds modest to you, it's because after a short and painful two years, that number has grown by almost 30% to approximately $30.5 trillion. COVID stimulus payments account for much of this.

Some democrat politicians insist on separating the elements of the "budget/spending/tax/borrowing" continuum." They want spending decisions to be separated from the process of setting the debt limit. However, responsible fiscal management demands that the debt limit act as a direct check on spending – they go hand-in-hand.

These elements work together like this: Government programs create spending requests. Spending decisions lead to tax and borrowing decisions. Borrowing requirements result in deficits, often followed by a need to increase the national debt. And that's when congressional infighting begins.

Now let's look at what I consider the really bad news. Contrary to what most people think, the "national debt" we hear so much about comprises only a small portion of total U.S. obligations. The missing amounts are referred to quite simply as "unfunded liabilities."

These obligations have a cash flow impact just as real as the repayment of our "national debt." The main difference is that the national debt balance only represents amounts we've already borrowed to pay for past expenditures. You and I are most familiar referring to these obligations as U.S. Treasury bonds, Treasury notes, and Treasury bills (T-bills).

Examples of unfunded liabilities include Social Security, Medicare, federal employee benefits, veterans' benefits, along with several other programs. These projected obligations include amounts to be expended for current program participants only, not future participants.

Some pundits point out that some programs are supported by dedicated trust funds for paying future obligations. Social Security and government employee retirement plans are examples. But those trust fund assets are primarily IOUs from the federal government, not cash or deposits. The federal government borrowed and spent those funds and must increase taxes or create new obligations, i.e., increase national debt, to repay their IOUs.

Corporations must measure and report unfunded liabilities obligations on their financial statements. Omitting the information would result in charges of fraudulent financial statements and possibly other transgressions. The government, however, escapes such scrutiny and I'm unaware of any official tracking and disclosure of these amounts.

I've followed estimates of unfunded liabilities for over a decade and am comfortable representing $220 trillion is within a reasonable estimated range for all U.S. obligations. This includes both "national debt" and "unfunded liabilities." That's the amount that should worry us the most.

Some would solve this problem by simply taxing the richest Americans. But if we confiscated all the wealth of the top 1% of U.S. households, we could pay off the national debt, but after doing so, the entire unfunded liability of almost $200 trillion would still remain. Thirty percent of our national wealth would have disappeared, and we couldn't look to those rich folks for taxes or investment capital.

If the President's budget request is indicative of the administration's intended direction for future spending, a huge fiscal nightmare can be expected soon. William F. Buckley Jr. had a favorite high-falootin' term for how to react to this type of situation. We should "stand athwart" of this foolishness.