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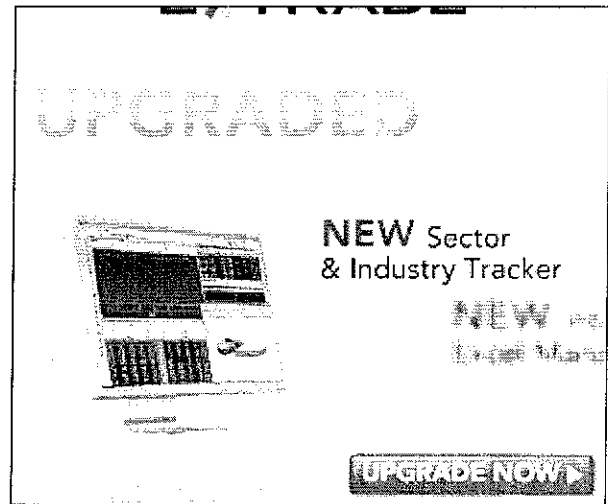
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Call this a crisis? Just wait

Actually, don't wait, because we've got to stop a bigger economic disaster in the making: 78 million baby-boomers eligible for Social Security and Medicare.

By David M. Walker, former U.S. Comptroller General
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(Fortune Magazine) -- Staring into the abyss always focuses the mind, which can help you avoid falling in. So let's take a look at the potential catastrophe that awaits us once we survive our current crisis.

At the dawn of the 21st century the U.S. had \$5.7 trillion in total debt. As we approach the end of George W. Bush's presidency only eight years later, that sum has nearly doubled, thanks to war costs, tax cuts, spending increases, expanded entitlement programs, and now a welter of government bailouts and rescues.

This year was particularly bad. The federal budget deficit for fiscal 2008 hit \$455 billion, up from \$162 billion last year. That figure does not include the cost of the Emergency Economic Stabilization Act of 2008, which has an initial pricetag in the hundreds of billions of dollars. In fairness, some of that money presumably will come back to the Treasury, since the new rescue-related sums will be used to acquire preferred stock, mortgages, and other assets that someday could be sold at a profit.

Yet any such calculations are penny ante compared with the fiscal disaster that is bearing down on America. It's no longer an event in the misty future. It officially began earlier this year when teacher Kathleen Casey-Kirschling of Maryland became the first baby-boom retiree to collect Social Security benefits. She will be followed by about 78 million more boomers over the next 17 years.

The entitlements due from Social Security and Medicare present us with that frightening abyss. The costs of these current programs, along with other health-care costs, could bankrupt our country. The abyss offers no assets, troubled or otherwise, to help us cross it.

Yes, some have suggested less-than-revolutionary measures that could help. Among them: budget savings that would accrue from repealing the Bush-era tax cuts, ending the Iraq war, or expanding the economy after the current downturn runs its course. But even if the economy were to grow at the level of 3.2% a year, as it did in

the 1990s, and these other savings were achieved, they wouldn't come close to addressing our federal financial problem.

Nor can we be complacent about timing. The costs of these programs start to threaten our solvency in the next several years. The only way to get across the chasm is to begin making tough choices now to change our current course. Delay will make the problem worse.

In fact, the deteriorating financial condition of our federal government in the face of skyrocketing health-care costs and the baby-boom retirement could fairly be described as a super-subprime crisis. It would certainly dwarf what we're seeing now.

The U.S. Government Accountability Office (GAO), noting that the federal balance sheet does not reflect the government's huge unfunded promises in our nation's social-insurance programs, estimated last year that the unfunded obligations for Medicare and Social Security alone totaled almost \$41 trillion. That sum, equivalent to \$352,000 per U.S. household, is the present-value shortfall between the growing cost of entitlements and the dedicated revenues intended to pay for them over the next 75 years.

Why call it a super-subprime crisis? Besides its gigantic scale, there are very disturbing similarities between the current mortgage-related crisis and our next potential disaster.

First, like the securitized investment vehicles that blew up, federal programs were launched without adequately thinking through who would bear the ultimate cost and related risk. Just as originators of mortgages let themselves off the hook by unloading packages of dubious loans onto others, lawmakers have increased spending, expanded entitlement programs, and cut taxes while expecting future generations to pay the bill.

Second, just as a lack of transparency associated with mortgage-backed securities resulted in big surprises and large losses for investors, our nation's huge off-balance-sheet obligations for Social Security and Medicare present a threat wrapped in camouflage. After all, the government's "trust funds" don't really provide much security since they don't hold anything but more government debt.

Third, in the same way that private sector "risk management" executives failed to prevent the subprime mortgage crisis, overseers in Congress and the executive branch have turned a blind eye to costs associated with entitlement programs and tax cuts. While lax regulation of banks fed the current subprime crisis, a lack of statutory budget controls has led to a widening gap between the government's revenues and costs.

At the heart of these problems is our leaders' collective failure to act in the face of known challenges. Our country has veered from its founding principles, which held to individual responsibility and accountability today in order to create more opportunity tomorrow. When our constitution was written, the concepts of thrift and prudence were no less at the center of the American spirit than liberty and justice.

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During past financial crises and wars, the government went into debt because our nation's survival was at stake. What has changed is that piling up debt has become business as usual, even during times of prosperity.

Today we are headed toward debt levels that far exceed the all-time record as a percentage of our economy. In fact, by 2040 we are projected to see debt as a percentage of our economy that is double the record set at the end of World War II. Based on GAO data, balancing the budget in 2040 could require us to cut federal spending by 60% or raise overall federal tax burdens to twice today's levels.

Medicare, Medicaid, and Social Security already account for more than 40% of the total federal budget. And their portion of the budget is expected to grow so fast that their cost, and the cost of servicing our debt, will soon crowd out vital programs, including research and development, critical infrastructure, education, and even national defense.

The crisis we face is one of numbers and demographics but also of attitudes. Promises were made in an earlier time, when they seemed more affordable. Like homeowners borrowing against the value of their homes in the expectation that the values would go up forever, the American government borrowed against the future and assumed that the economy would grow fast enough to make that debt affordable.

But our national debt is not limitless, and our foreign lenders are not fools. If we persist on our current "do nothing" path, our future will be jeopardized. Americans need to reconcile the government we want with the taxes we're willing to pay for it.

True, attempts at reforming Medicare and Social Security have foundered in the past, and there may be some Americans who think that if the government can bail out the financial sector, it can bail out our entitlement programs. But the political difficulty of tackling these problems, hard as they are, has to be overcome this time.

The next President, working on a bipartisan basis with the Congress, must make sure that tough controls are put in place to get control of the budget, once economic conditions improve. (Example: We can require that all new spending programs, commitments, and tax cuts are paid for by comparable spending cuts or revenue increases in other parts of the budget.)

We'll need to make some tough decisions on which of the Bush tax cuts we can afford to keep, and resolve what to do about the alternative minimum tax.

These problems are not beyond our ability to master them. Social Security can be made sustainable and secure with some modest changes over time in retirement benefits, the retirement age, and the tax structure, as Republicans and Democrats did in the early 1980s.

As for Medicare, there are a number of good ideas that would introduce more cost sharing for the wealthy, increased competition, better cost controls, more use of technology, and other steps to curb the growth of health-care spending.

I urge the government to set up a bipartisan commission that would begin working in early 2009. It should keep everything on the table - all entitlements, other spending, and tax programs - and make recommendations on both sides of the federal ledger.

If we bring together the talent and expertise that abound in our great country, we can see our way through the current financial crisis and find solutions for the next one. From Washington we'll need leadership rather than laggardship. The 78 million baby-boomers aren't getting any younger. ■

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