

Good Neighbors, Bad Ancestors

by Richard D. Lamm

I graduated from high school in 1953, and I inherited from my parents a small federal debt and the world's largest creditor nation. I am leaving my children a staggering federal debt and the world's largest debtor nation.

I inherited an exporting nation with a high saving rate, and I'm leaving my children an importing nation with the industrial world's lowest saving rate. I inherited a nation that produced more than it consumed, and I'm leaving my kids a nation that consumes more than it produces.

There was every reason for my parents to borrow money: they were fighting a depression and Hitler. There was no reason for my generation to borrow money (i.e., to pre-spend my kids' money), yet we have left an albatross of debt on the

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backs of the next generation the magnitude of which few understand.

The ghost of Juan Peron haunts the dreams of every late-twentieth-century politician, urging us to buy present popularity at the expense of the future. "Borrow from tomorrow to spend today," it whispers. "You will be long gone when the bills arrive." Peron got away with it for years, but ultimately he bankrupted Argentina. Do we risk a similar fate? Lately, if politicians don't follow this road to political popularity, some other politician will. We have built a system without brakes that relentlessly pre-spends our children's money. It's the public policy equivalent to binge shopping on a credit card; the gratification is so immediate and so tangible, the price deferred.

Successful democracy, in the long run, requires some allegiance to and respect for the future. In the short run, modern public financing gives public policy-makers incredible opportunities to encumber the future for present political gain.

1. My generation of politicians has relentlessly and quietly encumbered the nation's future's earnings. Compare the federal debt to our gross domestic product in the chart.

In times of great prosperity we

have quietly increased the debt as a percentage of the GDP. And every year we dramatically understate the yearly deficit by offsetting the real deficit with money borrowed from some 150 federal trust funds (such as the Social Security Trust Fund). The total of the published annual deficits for the ten years of the nineties is approximately \$1 trillion, but the actual federal debt has increased over \$4 trillion. In other

Year	Federal Debt	GDP
1981	\$1 trillion	\$3 trillion
1986	\$2 trillion	\$4 trillion
1992	\$4 trillion	\$6 trillion
1997	\$5.4 trillion	\$7 trillion
2003	\$6.5 trillion	\$11 trillion

words, the yearly deficit is not the real amount we add to the debt for that year; it is considerably understated. My generation has not been honest with the public.

2. We have dramatically understated the total federal debt. The total amount of federal debt, which we say we are leaving the future generation, is close to \$6.5 trillion, but that in no way represents the cost of government services, which my generation enjoyed but leave to the following generation to pay off.

We have to honestly compute the true "costs of the future" starting with the "unfounded

liabilities,” which I argue make the real federal debt that our children will have to pay off for services enjoyed by my generation far closer to \$20 trillion. Military retirement, federal civil service retirement, and Social Security payments are all owed for which no (or inadequate) money has been set aside. There is a whole category of government services that we enjoyed, but we left our kids the bill to pay. Fiscal fraud, clearly.

3. We have also told the public that the Social Security Trust Fund was an asset, but it is not; there is nothing there that will help future taxpayers pay off future Social Security payments. The trust fund owns nothing but U.S. government bonds that our kids will have to raise the money to pay. Future taxpayers will thus inherit a large amount of federal government bonds that they will have to pay

themselves. We don't even pay the interest on those bonds but, instead, pay the interest by selling additional federal bonds that they will also have to pay.

If we would have bought bonds or stocks of another country, there would be value in the fund, for the debt would be on their taxpayers. But we bought U.S. government bonds and essentially added this debt to the national credit card. We have been “credit card liberals;” there has been no program that we didn't consider worthy of funding and then putting on the national credit card. We knew what we wanted, but not what we could afford. We have enriched our own political careers by voting for myriad programs that we couldn't pay for. We get the political benefit; the future gets the bill. Great deal for me, terrible deal for public policy, and a tragic legacy to leave

to our children.

One of the great issues of the future will be “intergenerational equity” when the younger generations start to recognize what we have done to them. My generation lived in the afterglow of the New Deal. We misread Keynes and thought that borrowing, because it worked in the thirties and forties, could continue forever. But we found that debt is economic cocaine; it is very hard to stop borrowing once you start. Every generation should pay for the government services it uses. Robert Louis Stevenson said, “Sooner or later, we all sit down to a banquet of consequences.” True, except my generation of politicians will not be sitting there when the bills become due. We have been good neighbors but bad ancestors. •