



Staticide

America's Pursuit of Its Suicidal Status Quo

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Demographics = Destiny

- Much of the World is About to Experience Unprecedented Aging
- Result of Dramatic Rise in Longevity and Decline in Birth Rates
- Enormous Social and Economic Consequences
- Major Depopulations Forecast in Japan, Europe, China, & Russia
- Could Bankrupt the U.S., Europe, Japan, and China
- Could Spell High Inflation If Not Hyperinflation



The Aging Process Has Begun!

- 1 in 5 Japanese are Now 65+.
- The Oldest U.S. Baby Boomers Are Now 62.
- Europe and Japanese Work Forces Are Now Shrinking.
- Japan is Now Depopulating, Europe Starts in 4 Years.

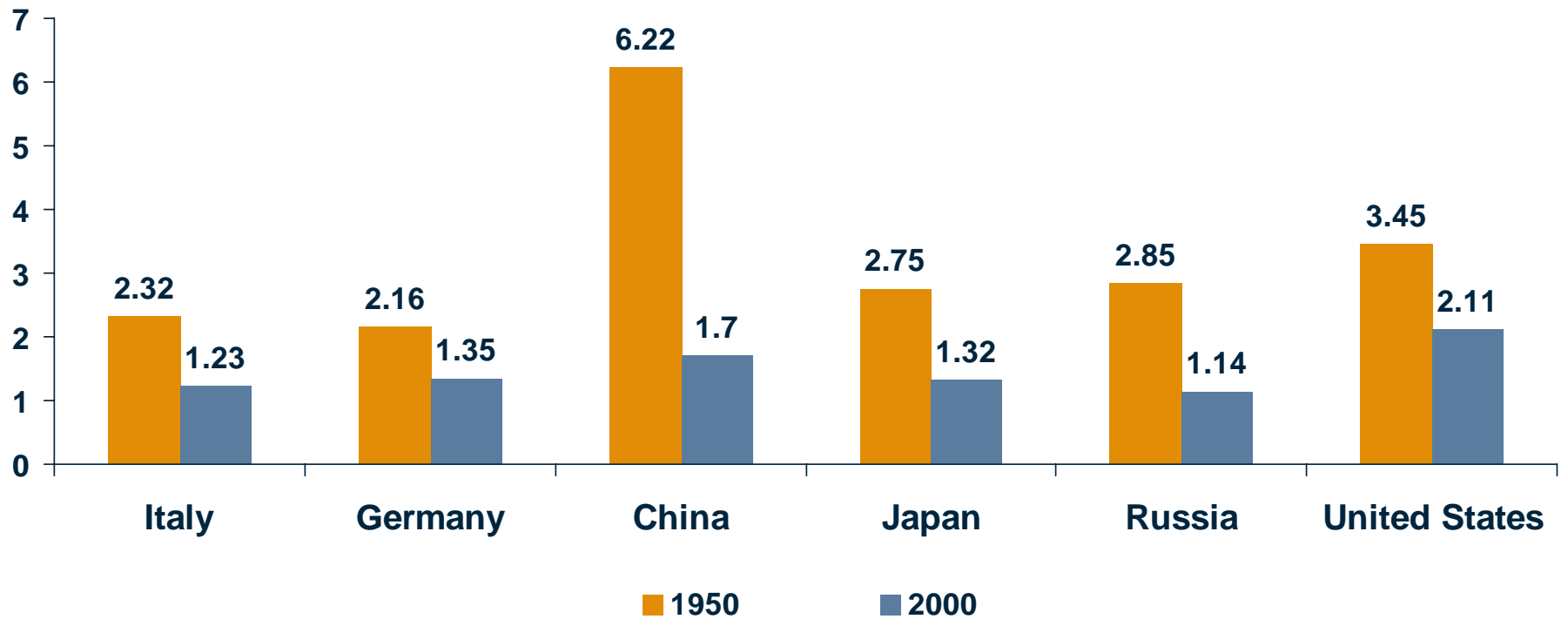


Elderly Population Shares

Country	2005	2030	2050	2070
Germany	17.1%	26.3%	30.6%	31.3%
Japan	18.0%	29.9%	36.8%	37.7%
U.S.	12.4%	19.1%	21.3%	21.6%
China	7.6%	16.3%	23.6%	na

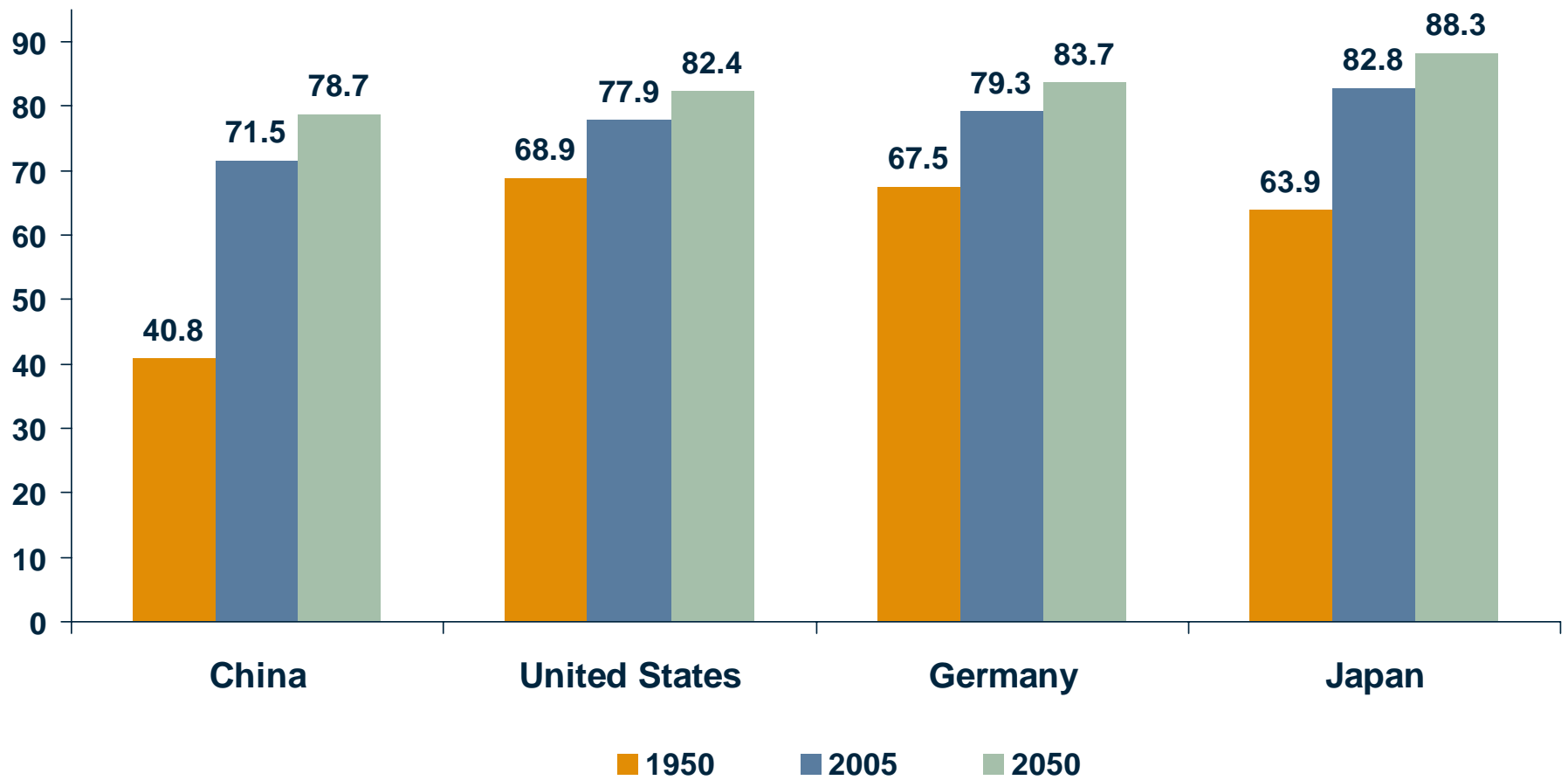


Fertility Rates



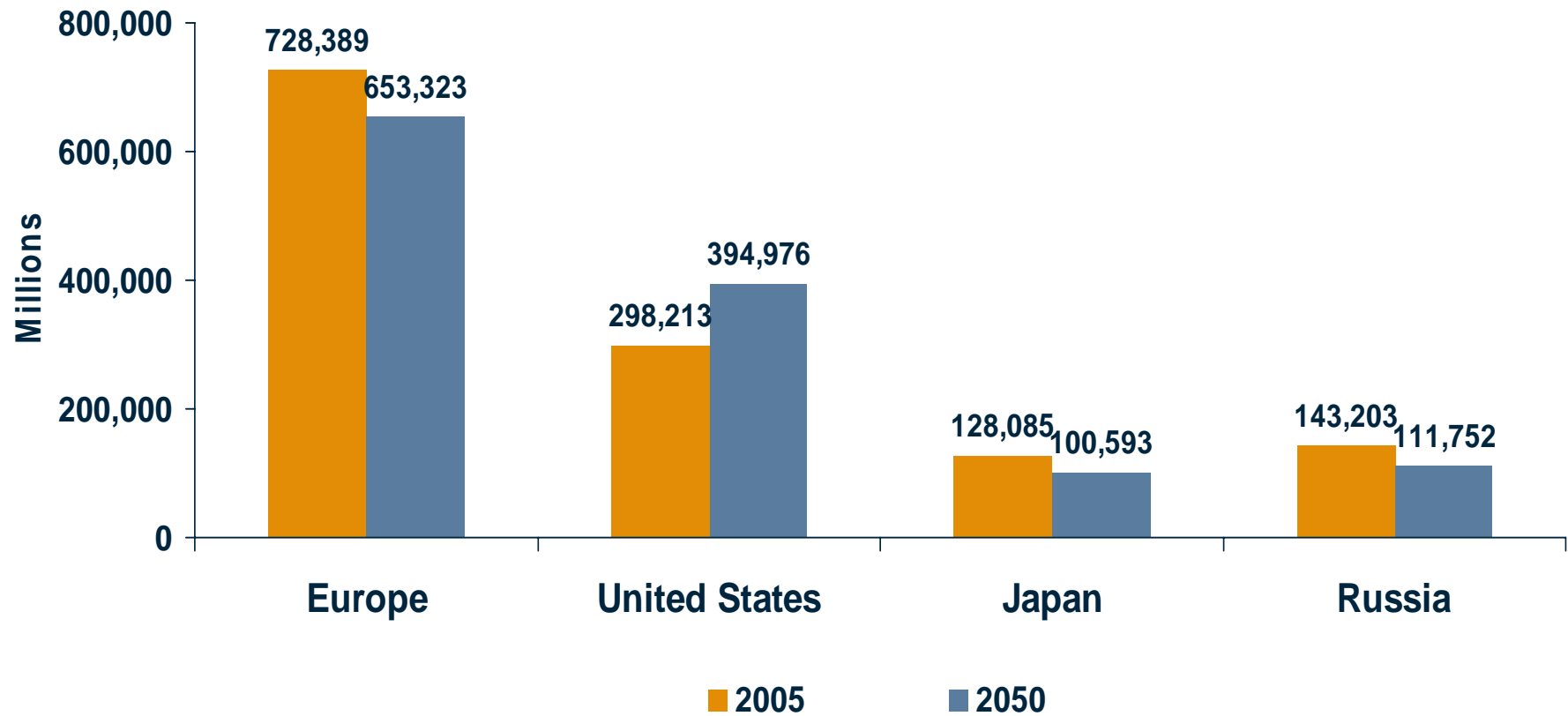


Life Expectancy at Birth





Populating and Depopulating





Demographic Shockers

- Japanese Female Life Expectancy is 86, Russian Male Expectancy is 59.
- Minorities Account for 90% of U.S. Population Growth.
- By 2060 U.S. Minorities Will Be the Majority.
- Fully Developed, China will Constitute More than 2/3rds the Developed World.
- In 2050, the U.S. Will Have Enough Centenarians to Fill Up Washington, D.C.
- France Could be a Muslim Country By 2050.
- 1/2 (1/4) of 65 Year-Old U.S. Couples Will Have a Member Live to 92 (97).
- U.S. Females in Top Colleges Outnumber U.S. Males by 1.33 to 1.
- Roughly Half of Today's Children will Live with Only One Parent Prior to Age 18
- Roughly 80% of Young Black Men Under 35 Have a Criminal Record



Paying the Piper – the Cost of Aging in the U.S.

- Social Security, Medicare, and Medicaid Spending Per Older is \$30,264.
- This Equals 80 Percent of U.S. Per Capita GDP
- This Exceeds Per Capital GDP in 200 of the world's 231 Countries
- 77 Million Boomers Poised to Start Collecting \$30,264 Plus
- Healthcare Spending Represents More than Half of the \$30,264.
- The Healthcare Component Has Been Growing at an Incredible Rate.



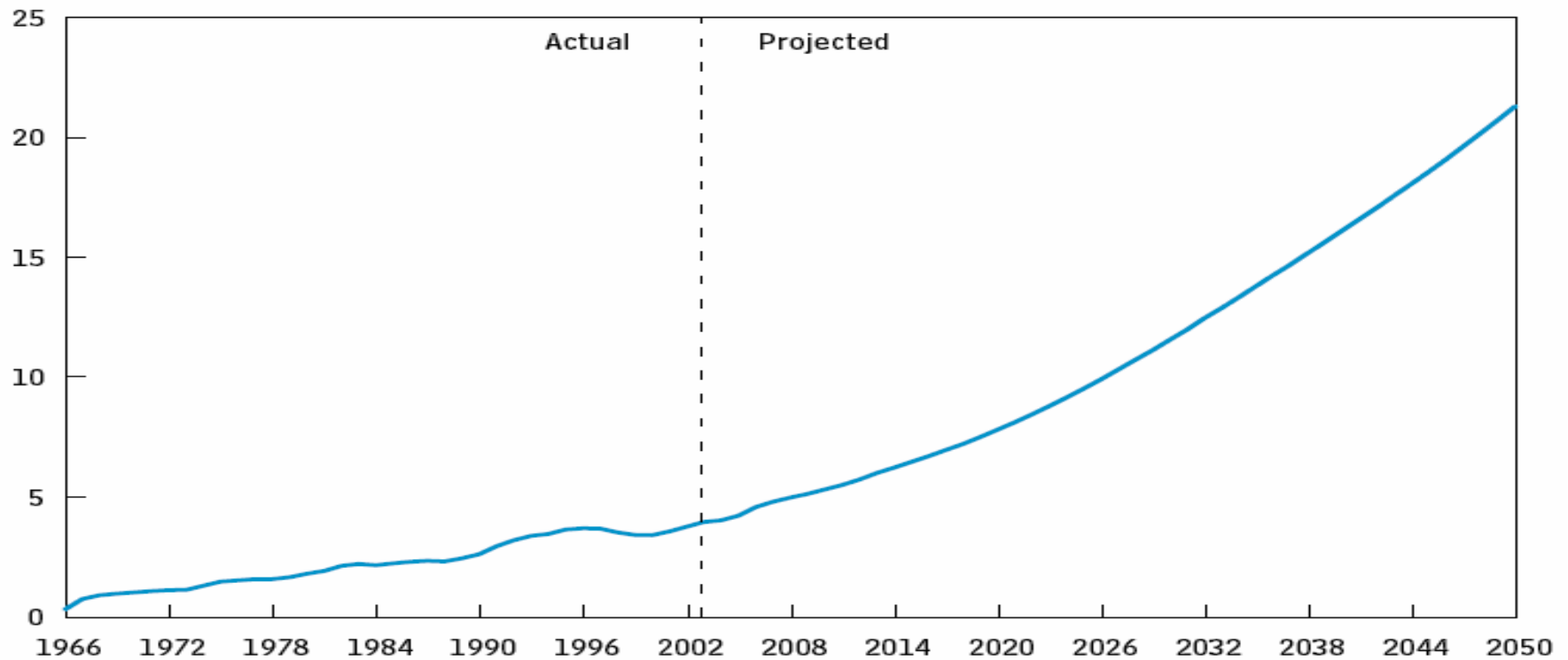
1970-2002 Growth in Government Healthcare Benefit Levels

Country	Annual Growth in Expenditure Per Recipient	Annual Growth in Expenditure Per Capita	Annual Growth in GDP Per Capital	Ratio of Expenditure Growth to GDP Growth
Germany	3.30%	3.62%	1.54%	2.1
Japan	3.57%	4.85%	2.44%	1.5
U.S.	4.61%	5.10%	2.01%	2.3



Total Federal Spending for Medicare and Medicaid

(Percentage of GDP)



Source: Congressional Budget Office. See *The Long-Term Budget Outlook* (December 2003).



Mind the Fiscal Gap!

Fiscal Gap =

Present Value of Expenditures - Present Value of Receipts



Is the U.S. Bankrupt?

U.S. Fiscal Gap =

\$70,000,000,000,000!

Source: Jagadeesh Gokhale and Kent Smetters (2005)



How Can the U.S. Fiscal Gap Be So Large?

**Current Retirees are Receiving, on Average, \$30,000
in Social Security + Medicare + Medicaid**

**In 2035 Average Social Security + Medicare Medicaid Benefit
Will Exceed \$50,000 in Today's Dollars**



Average Social Security + Medicare + Medicaid Benefit as a Share of U.S. Per Capita Income

1965	28%
1980	63%
2007	79%
2020	88%
2030	91%
2040	98%
2050	106%



**What's the Annual Cost of Paying Each of 77
Million Boomers \$50,000?**

\$3,850,000,000,000



AND THIS IS THE GOOD NEWS!



The Bad News

Fiscal Gap Calculations Assume Growth Rate of Average Medicare + Medicaid Benefit is Only 1.0 Percentage Points Higher than Growth Rate of Per Capital GDP



In Fact,

**From 1970-2002 Difference Between Real Benefit and
Real Per Capita Income Growth Rates Averaged**

2.6 Percentage Points!

Source: Hagist and Kotlikoff (2005)



Since 2000

There Has Been Explosive Growth in Medicare Expenditures thanks, in Part, to Medicare Part D

There Has Been Explosive Growth in Medicaid Expenditures thanks to Enrollments



Since 2000

Medicaid Enrollments Have Risen by

35 Percent!



Medicare and Medicaid Coverage

These Two Programs Now Cover
One Third of the Population

Yet One in Six Americans Have No Medical Insurance

States Are Now Planning Further Dramatic
Increases in Medicaid Coverage



Who's Watching the Shop?

Since 2000

- Real Defense Spending up 60%
- Real Medicare + Medicaid Spending Up 35%
- Total Federal Outlays Up 29%
- Real GDP Up 15%



Eliminating the Fiscal Gap – the Menu of Pain

- **70% Permanent Hike in Personal and Corp Income Taxes**
- **109% Permanent Hike in Payroll Taxes**
- **91% Permanent Cut in Federal Discretionary Spending**
- **45% Permanent Cut in Social Security and Medicare**



Bush's Fiscal Policy – Accelerating Bankruptcy

No Social Security Reform

Big Expansion of Medicare

No Medicaid Reform

No Tax Reform

Big Rise in Federal Discretionary Spending



What About?

- Immigration
- Increased fertility
- Capital deepening/Technological change
- Delayed retirement
- Help from employers
- Help from dad and mom
- Help from Our kids



U.S. Is Youngest Kid On Block, But May Be in the Worst Fiscal Shape

- Japan, France, Italy, Sweden, & Germany Have Enacted Major Pension Reforms
- UK is Price-Indexing Its Pensions
- Spending on State-Provided Healthcare is Easier to Control than Spending in a Fee-For-Service System



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U.S. Fiscal Demise Is Not Inevitable

The New New Deal

- The FairTax
- The Personal Security System
- The Medical Security System
- Scale Back Discretionary Spending
- Fiscal Gap Accounting



The FairTax

- Abolish Federal Personal & Corporate Income Taxes , FICA Tax, & Estate/Gift Tax
- Establish a Single Federal Retail Sales Tax with a 23% Effective Rate (30% Nominal)
- Establish a Universal Rebate Payment Paid to All Households Independent of Income
- Rebate Based on Household Size; It's Large Enough to Cover FairTax Paid by Poor
- FairTax Is, partly, a Tax on Wealth. When Rich Spend their Wealth, they Pay the Tax
- Given the Rebate and Its Implicit Tax on Wealth, FairTax Is Highly Progressive
- FairTax Shifts Fiscal Burden Away from our Kids. The Rich are Older and Pay More.
- In Taxing Consumption, the FairTax Greatly Improves Incentives to Work and Save.
- FairTax Makes Fiscal System Transparent



The Personal Security System

- Workers contribute to individual accounts
- Contributions split 50-50 with spouse/partner
- Government matches contributions of poor
- All assets invested by gov. in the Luxembourg Fund
- Luxembourg Fund is a global index fund
- Government protects downside
- At retirement, assets slowly and converted by gov. to inflation-protected annuities



The Medical Security System

- Shut down Medicare and Medicaid Programs
- Establish MSS -- a New Federal Universal Health Care System
- Each Year Every American Receives a Voucher to Buy Health Insurance for the Year
- Each Person's Voucher Differs Depending on Her *Current* Expected Health Costs
- The Worse Your Health, the Larger Your Expected Costs, & the Bigger Your Voucher.
- Government Sets Total Voucher Budget to Keep MSS Costs Fixed as Share of GDP
- Program is Much More Expensive in Short Run, But Saves Huge Sums Over Time
- Insurance Firms Compete and Design their Contracts to Limit Costs
- The MSS is Progressive. Poor are Sicker. They Get Larger Vouchers.



Scaling Back Discretionary Spending

- Since 2000 Discretionary Spending as a Share of GDP Has Risen by 25%
- Over Time, Discretionary Spending Should Be Scaled Back to Its 2000 Share of GDP
- Under The FairTax – Everyone Knows that More Spending Means a Higher Rate.
- Given This, the FairTax Should Help Put an End to Pork Barrel Spending
- FairTax's 23% Effective Rate Is Set in Stone.
- Government is Required to Adjust Expenditures to Eliminate the Fiscal Gap



Fiscal Gap Accounting

- Conventional Deficit Accounting Has No Basis in Economic Theory
- See: “On the General Relativity of Fiscal Language” – Jerry Green and Laurence Kotlikoff
- Need to Do Fiscal Gap Accounting on a Regular Basis for the Developed World
- Clarifies the Sustainability of Policy
- Indicates Who Pays for What the Government Spends



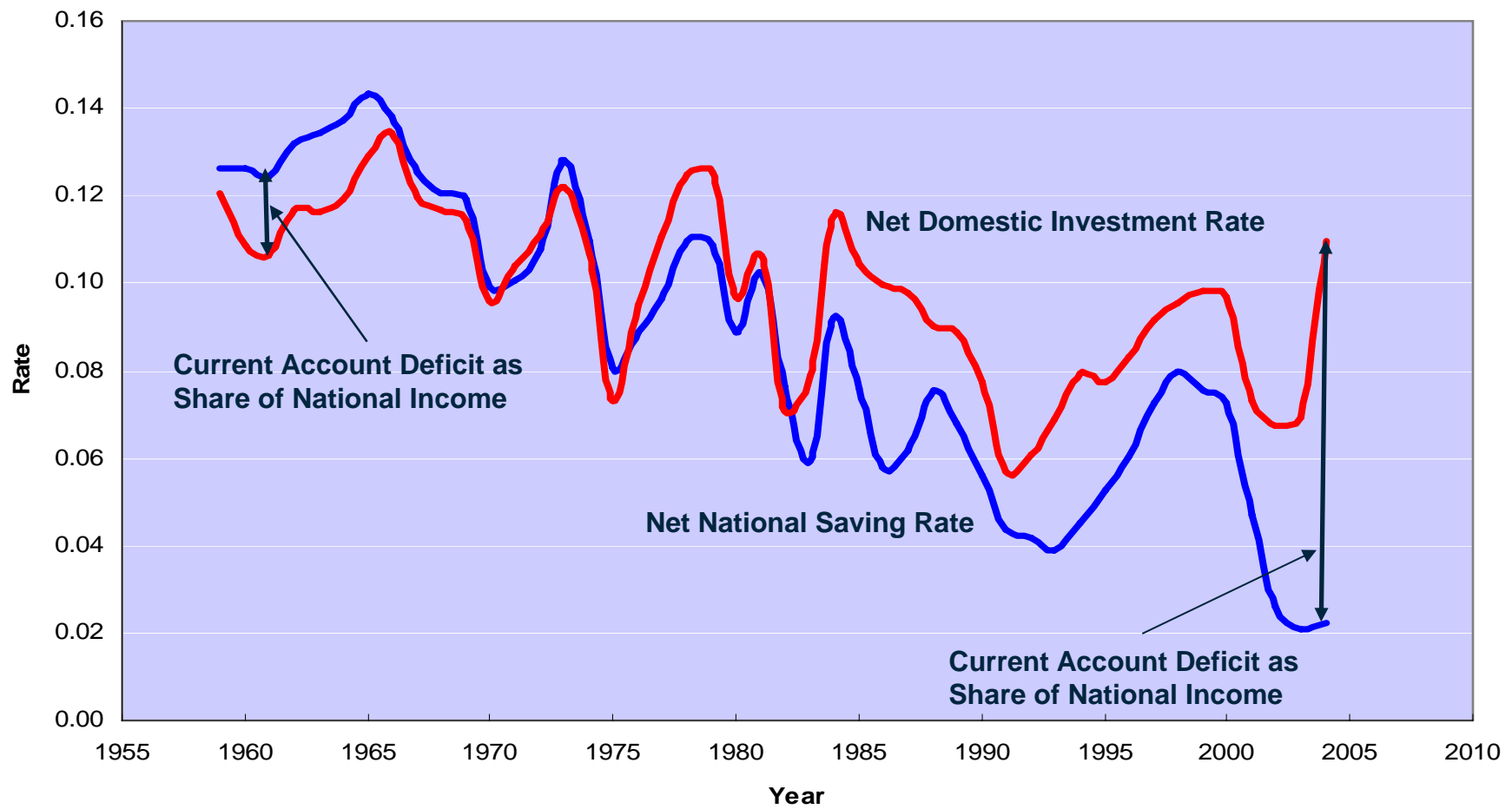
Going Critical

Countries that can't raise taxes or cut spending, print money

- Practice dates to Emperor Diocletian in 300 AD
- 20 hyperinflations in the last century
- Do cry for me Argentina
- Think about Brazilian interest rates
- China Holds and Can Dump \$750+ Billion in U.S. Treasuries



Net National Saving and Net National Investment Rates





Warnings for Financial Markets

- Hyperinflation is Just Around the Corner
- Sky-High Interest Rates Are Just Around the Corner
- Fed's Independence is a Myth
- The Bond Market is About to Tank
- Where U.S. Bonds Go, U.S. Stocks Will Follow
- Where U.S. Stocks Go, Foreign Stocks Will Follow
- Where U.S. Financial Market Goes, Real Economy Will Follow