

The Global Pension Crisis – What Would Bismarck Do?

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Developed World Has Driven Itself Broke

- Pay-As-You-Go Pensions Have Played a Major Role
- So have Pay-As-You-Go Healthcare Programs
- Official Debt/GDP Ratios are Now Huge and Exploding
- Unofficial Debts, Particularly Obligations to Pay Pensions and Healthcare, Swamp Official Debts
- Thus, Most Gov. Liabilities Have Been Kept Off the Books.

The Fiscal Gap Measures a Country's True Fiscal Condition

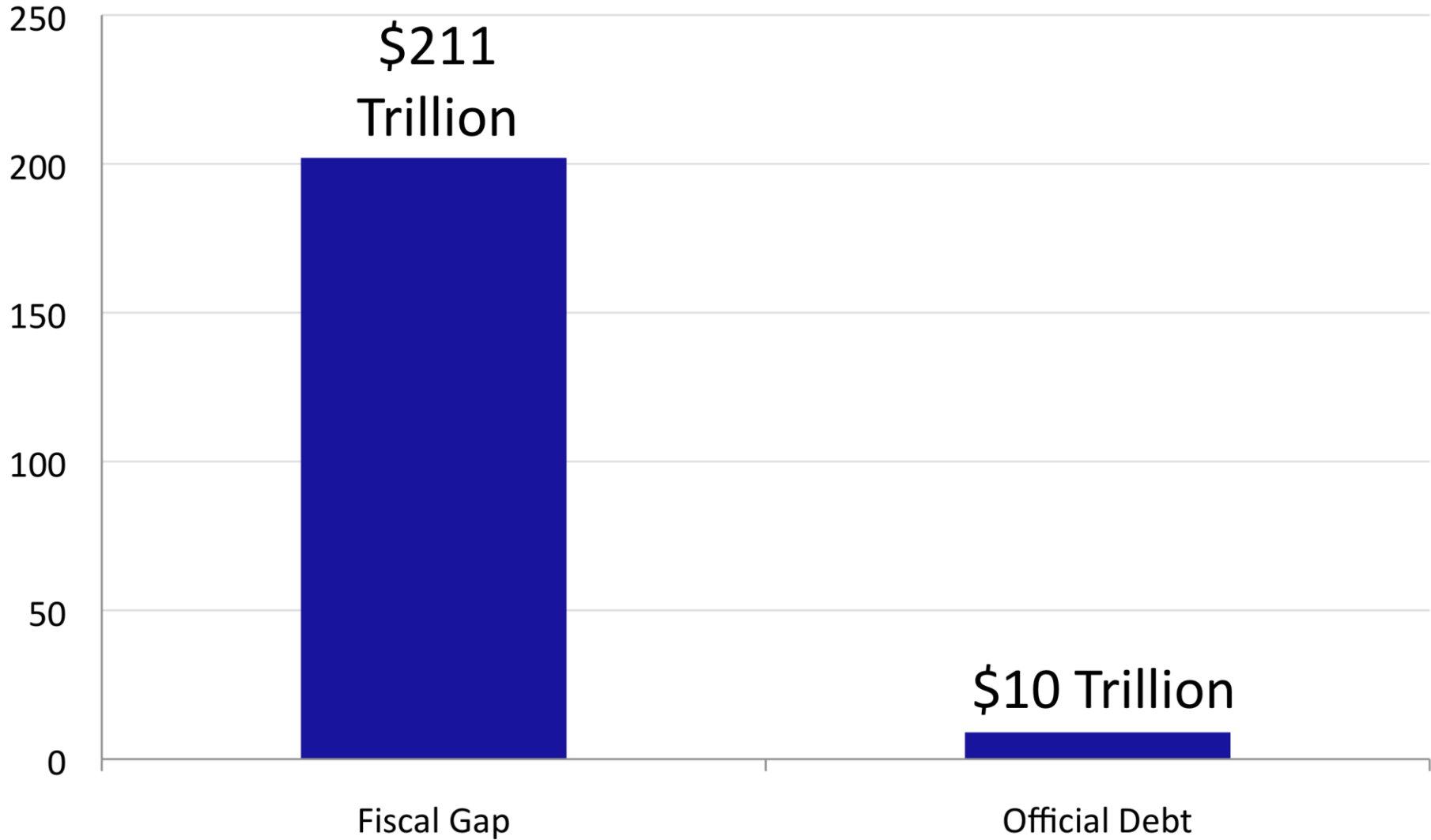
- Fiscal Gap Equals Official Plus Unofficial Debt
- Unofficial Debt = PV Spending - PV Revenues
- Forming Un-truncated PVs is Critical
- Developed Country Fiscal Gaps are Gigantic

How Big is U.S. Fiscal Gap?

Answer: \$211 Trillion

Source: Author's Calculations base on CBO's June 2011 Alternative Fiscal Scenario

U.S. Fiscal Gap Swamps U.S. Official Debt



U.S. Is In Worse Shape than Greece and Much Worse Shape than Germany

U.S. Fiscal Gap is 14 Times GDP

Greek Fiscal Gap is 12 Times GDP

German Fiscal Gap is 3 Times GDP

Closing the U.S. Fiscal Gap

Immediate and Permanent 64%
Hike in All Federal Taxes!

Immediate and Permanent 40% Cut
in All Non-Interest Federal Spending

Closing the German Fiscal Gap

Immediate and Permanent 13%
Hike in All Federal Taxes!

Immediate and Permanent 11% Cut
in All Transfer Payments

European Countries Have Worse Demographics than U.S, But They've Enacted Major Pension Reforms and Have Direct Control of Healthcare Spending

U.S. Social Security System is In Worse Financial Shape than It's Ever Been.

U.S. Medicare and Medicaid Benefits Continue to Grow at Unsustainable Rates.

Fiscal Gaps Reflect Postwar Ponzi Schemes

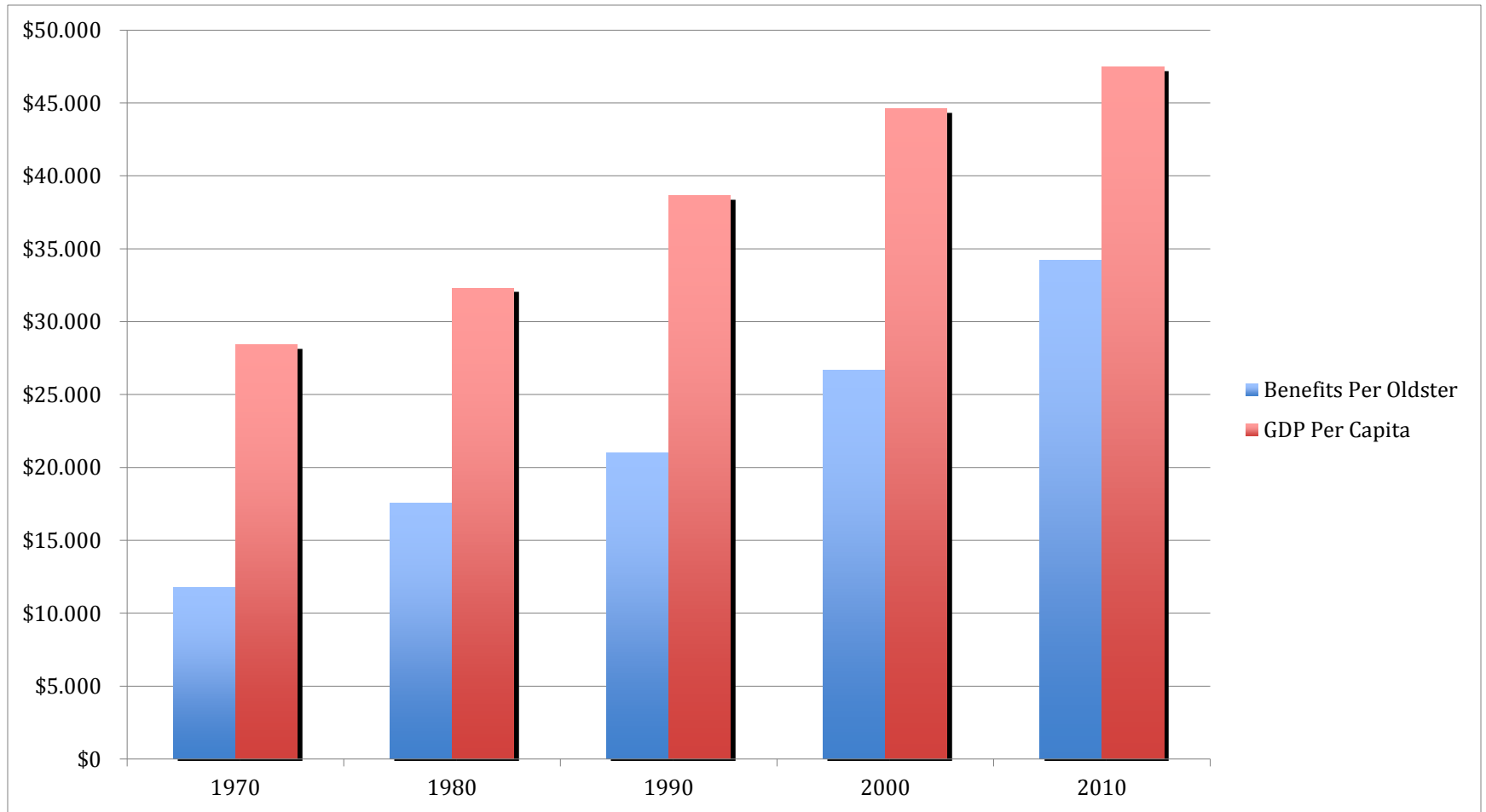
How Does It Work?

- Take Money from the Young, Give to the Old
- Call the Money that's taken: "Taxes"
- Tell the Young, "Yes, We're Calling this Money Taxes. But Don't Worry. You'll Get These Taxes Back Plus Plenty More in Retirement"
- Result: Produce Massive Debts that Never Show Up on the Books.

The Trouble with Ponzi Schemes

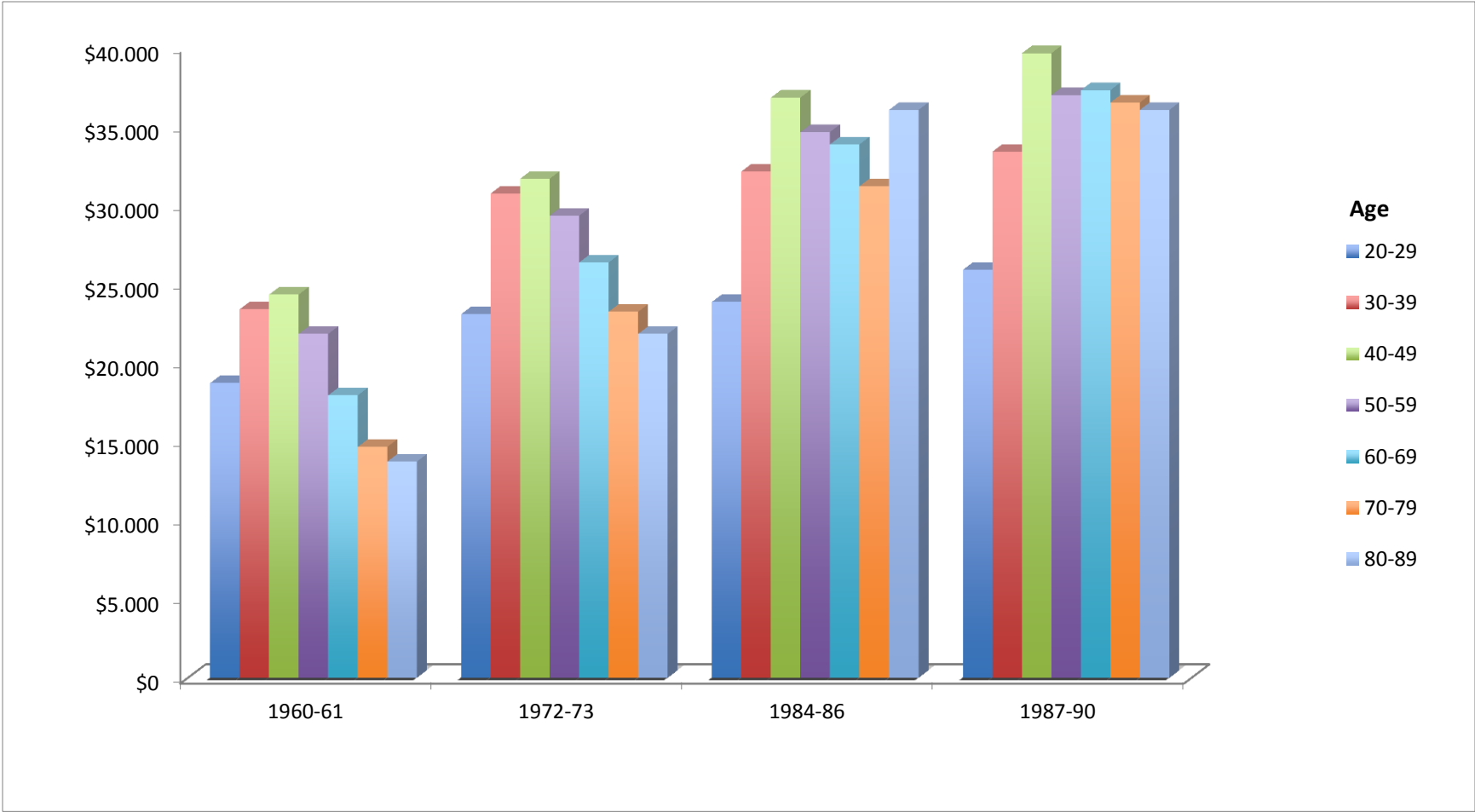
- They Ultimately Fail and Produce Enormous Harm to Those at the End of the Chain Letter
- They Produce Economic Fallout
- The U.S. Ponzi Scheme Has Wiped Out U.S. Saving and Net Domestic Investment and Reduced Real Wage Growth
- This is Precisely What the Life-Cycle Model Predicts

U.S. Real Social Security, Medicare, and Medicaid Benefits Per Oldster and Real Output per Person, 1970 -2010

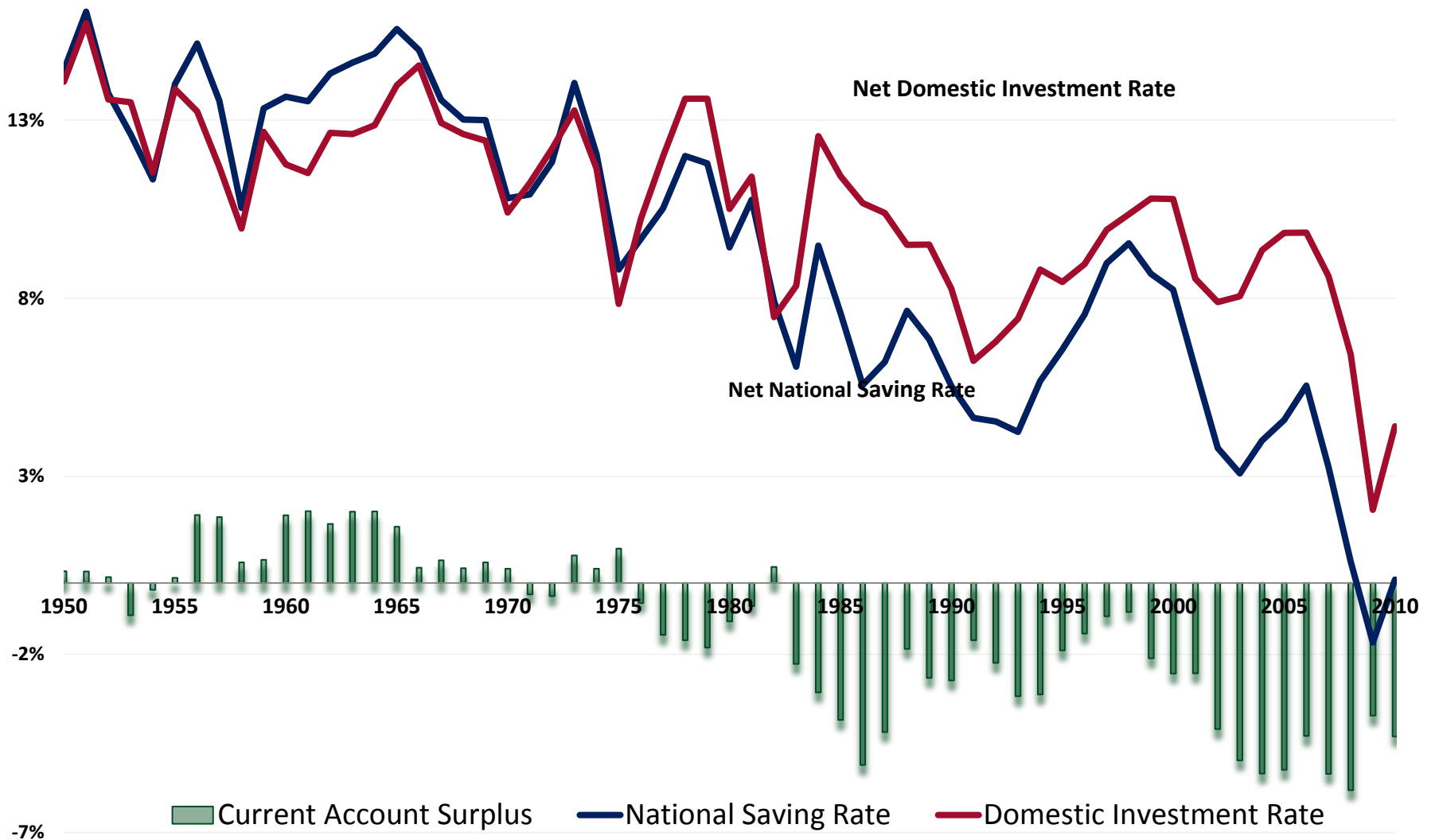


U.S. Average Consumption By Age

(2011 Dollars)



U.S. National Saving Rate and Domestic Investment Rates, 1950-2010



America's Real Wage Stagnation

Average U.S. earnings per hour, adjusted for inflation and excluding fringe benefits, are no higher today than they were in 1964!

The Situation Is Getting Worse.

U.S. Fiscal Gap Grew By
\$6 Trillion Last Year!

Congress' Super Committee is
Charged Not with Eliminating the
Fiscal Gap, but With Reducing
Budget Deficits Over the Next 10
years by Just \$2.1 trillion!

This Is Far Too Little, Too Late

In Focusing on the Official Debt,
Not the Fiscal Gap, Congress is
Driving in NY with a Map of LA.

Official Debt is Not Theoretically Well-Defined

Depends on How One Labels
Government Receipts and Payments

The Infinite Horizon (Not Finite Horizon)
Fiscal Gap Is Well Defined

Fiscal Gap is Same Regardless of Labeling

For Decade U.S. Government Has
Chosen Labels To Keep Most of Our
Debts Off the Books.

This is Why the U.S. Fiscal Gap
Is 22 Times the Official Debt

Thanks to the “Developed” World’s Fiscal Policies and “Trust Me” Capital Markets,

the Global Financial System
Remains Extremely Fragile

As We're Witnessing Today in the
Eurozone, We've Set Up Our Financial
System to Ensure that It Fails When
Our Fiscal System Fails.

And We've Set Up Our Financial
System to Ensure that It Can Fail
and Bring Down the Economy
and Fiscal System.

Since 2008, Central Banks Have Been
Printing Vast Sums of Money to Deal with
the Ongoing Financial -> Fiscal and
Fiscal -> Financial Crises.

Moral Hazard and Hyperinflation
Are the Two Big Concerns

Europe May Yet Get It's Fiscal Act
Together, but There Is Great Distrust of
the Greeks, Italians, etc.

As for U.S., Its Political System Is
Completely Deadlocked.

Europe May Yet Get It's Fiscal Act Together.

But There Is Great Concern About

and Distrust Of the Resolve of

Greek, Italian, and Other Governments.

PIIGS' Debt Totals 3 Trillion Euros.

If Market Doesn't Role this Over, ECB Will

Need to Print Even More Money to Buy It

Either Directly or Indirectly.

Developed World Needs a New Financial
and Financial Architecture to Survive
in the 21st Century.

Limited Purpose Banking Is the Requisite New Financial Architecture

- 100% Equity-Based Mutual Fund Banking
- Cash Mutual Funds Used for Payment System
- Federal Financial Authority Vets/Discloses Securities
 - Mutual Funds Purchase Securities at Auction

=> A Financial System that Can Never Fail

We Need to Move Away From
Pay-Go Fiscal Policies

The Purple Social Security Plan

www.thepurpleplans.org

The Purple Social Security Plan

1. Freezes Existing Social Security System by filling in zeros in earnings records for years after the reform begins
2. Requires workers through age 60 to contribute 8 percent of wages to personal security accounts (PSAs).
3. PSA contributions are divided 50-50 between spouses and legal partners
4. The government makes matching contributions to PSAs on behalf of the poor, unemployed, and disabled.
5. All PSA balances are invested in a global market-weighted index fund of stocks, government bonds, corporate bonds, and real estate.
6. Between ages 61 and 70, PSA balances for each cohort are gradually sold at market and converted to TIPS
7. Government guarantees PSA balances at conversion equal at least what was contributed adjusted for inflation.
8. PSA participants who die prior to age 70 bequeath unconverted balances to their heirs.
9. Starting at age 62, cohort TIPS pool makes payout to surviving cohort PSA participants based on age 60 PSA balances.
10. Distribution from TIPS pool designed to ensure real payout to surviving cohort members is stable through time.