

SEMI-MONTHLY FISCAL/MONETARY UPDATE - "REAL" US GOVERNMENT DEFICITS MUCH HIGHER THAN STATED

Date : October 17, 2016

FISCAL/MONETARY SEMI-MONTHLY UPDATE – 10/16/2016

It is especially instructive to take a hard look at some numbers that are getting very little attention from the politicians as they debate their way to November 8th.

Everyone knows that the accumulated federal debt is too high, and the annual deficits must come down at some point, or this country is going to sink into financial oblivion. I personally think it is fair to say that the U.S. cannot lead the world, or at least set an example for the world, in hardly any sense if we cannot get our financial house in order. Everyone also knows that our national deficit ballooned from 2000 until 2009 largely under the influence of two wars, and also that our deficits have come down materially after the mideastern involvement was wound down (for better or worse). The current administration is fond of saying that the deficit has been decreased from \$1.413 trillion in the fiscal year ending 9/30/2009 to “only” \$438 Billion in Y/E 9/30/2015. Most recently, it is estimated to have risen to \$587 Billion as of the year just ended 9/30/16, and most economists estimate that it will rise in the next 5 to 10 years unless economic growth picks up materially.

Aside from the fact that the deficit is projected to continue rising from this point forward, unless tax revenues rise substantially, from higher tax rates and/or a materially better economy ***the problem is:***

Government accounting doesn't equal real world cash coming and going. Stated simply, the government uses “accrual” accounting, not charging certain cash expenditures to the current period, capitalizing those expenses, putting them on the balance sheet (increasing the debt, which these days carries a very low interest rate, and doesn't hurt much) rather than alarming “the folks” with large “deficits”.

It goes like this: In the latest fiscal year, the stated deficit was about \$587 Billion, but the Debt at 9/30/16 was \$1.4 Trillion, UP \$1.250 Trillion from a year earlier. That's a cool \$663 Billion that was “capitalized” somehow, rather than expensed (Can't alarm “the folks”). OK, you say, “but that's just one year, it probably balances out over a longer period.” Not exactly. Here are the numbers since 9/30/2007.

| U.S.Dept | Yr. Deficit | Increased | Increased Debt |
|---------------|-------------|-----------|----------------------|
| (\$Trillions) | (\$ | Debt | Minus Year's Deficit |
| | Trillions) | | |

Equals Capitalized

| | | | | |
|----------------|--------|-------|-------|--------|
| At 9/30/2007 | 9.008 | | | |
| 9/30/2008 | 10.025 | 0.459 | 1.017 | 0.558 |
| 9/30/2009 | 11.910 | 1.413 | 1.885 | 0.472 |
| 9/30/2010 | 13.562 | 1.294 | 1.652 | 0.358 |
| 9/30/2011 | 14.790 | 1.299 | 1.228 | -0.071 |
| 9/30/2012 | 16.066 | 1.100 | 1.276 | 0.176 |
| 9/30/2013 | 16.738 | 0.680 | 0.672 | -0.008 |
| 9/30/2014 | 17.824 | 0.485 | 1.086 | 0.601 |
| 9/30/2015 | 18.150 | 0.438 | 0.326 | -0.112 |
| 9/30/2016 * | 19.400 | 0.587 | 1.250 | 0.663 |
| Total | 10.392 | | | |
| increase | | | | |
| Total Deficits | | 7.755 | | |
| Capitalized | | | | 2.637 |

One last point, the cumulative deficit as of today 10/17, from the treasury department website, indicates that the latest number is \$19.7 trillion, so the deficit is apparently \$300 billion higher than the last government estimate as of 9/30. Political discourse is one thing, reality is another.

So this is not a function of one year. Over the last 9 years, ending 9/30/16, the deficits have added up to \$7.755 Trillion, but the Cumulative Debt has risen by \$10.392 Trillion, a difference of a not so modest \$2.637 Trillion. The point is: The annual deficits we are running, and the debt we are accumulating, is a lot larger than any of our politicians are willing to admit.

Take all of this under consideration as we watch the next several weeks of political discourse unfold, including the discussion (or lack thereof) of entitlement reform, defense spending, government subsidized health plans, immigration reform, tax policy, etc.etc.