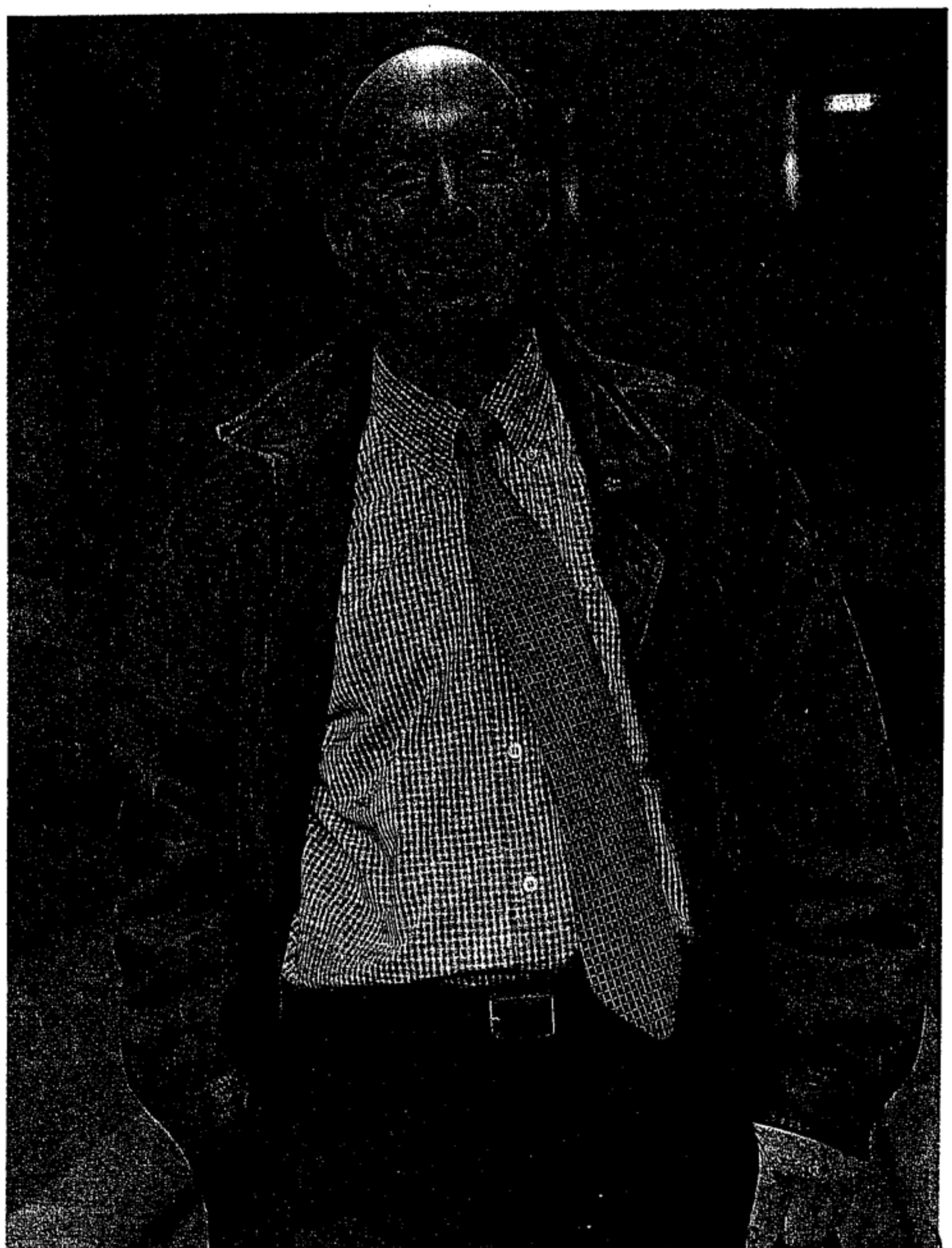
Baby-Boom Retirement Debacle Starts 2008

The $44 Trillion ABYSS

The baby-boomers are about to retire, and it's going to cost us—*big.* Here's what the government doesn't want you to know.

BY ANNA BERNASEK

Last fall Paul O'Neill, then Secretary of the Treasury, wanted a simple answer to a thorny question: How prepared was the nation today to pay all its future bills? Two government experts worked for months to calculate the answer. Their findings, which shocked even them, were never published—the Bush administration made sure of that. The reason for the silence was that by the time the two researchers had completed their study, O'Neill had been thrown out of the Treasury and replaced by the more politically astute John Snow. No savvy administration power player would dare point out, right in the middle of tax-cut season, that there was a huge hole in the country's finances—a *$44 trillion* hole.

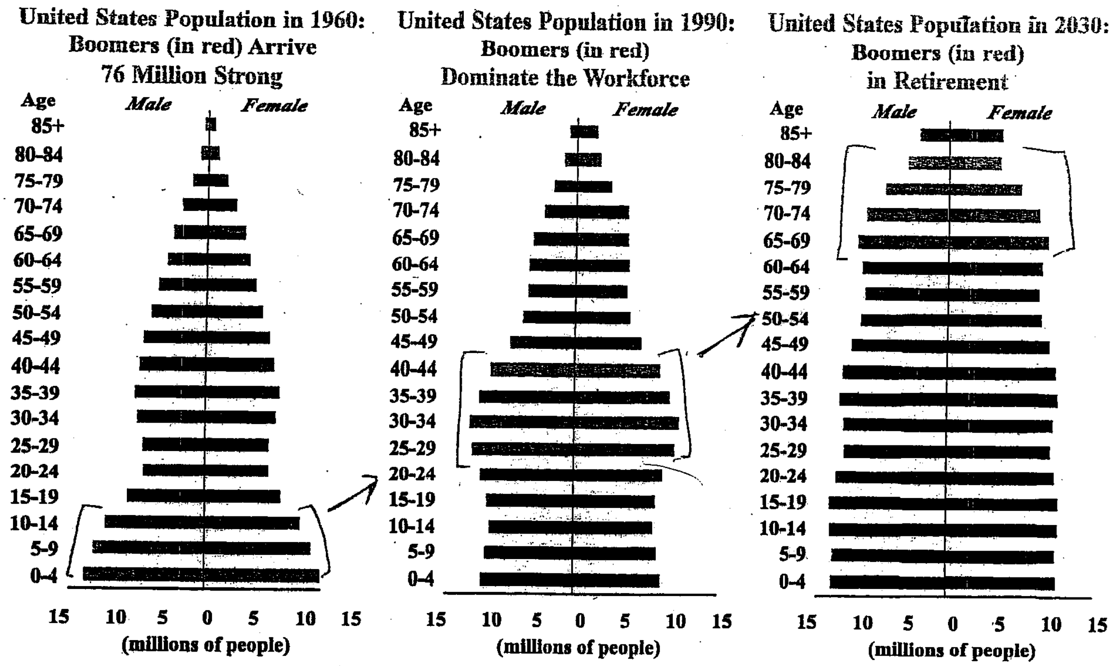


MAN WITH A MISSION Boston University's Kotlikoff is a one-man fiscal warning system.

62

U.S. Retirement programs are completely unsustainable

THE BABY BOOMERS AND THE U.S. POPULATION IN 1960, 1990, 2030



E16

Source: *U.S. Census Bureau*

AGING POPULATION IS THE CULPRIT!

THE CONCORD COALITION

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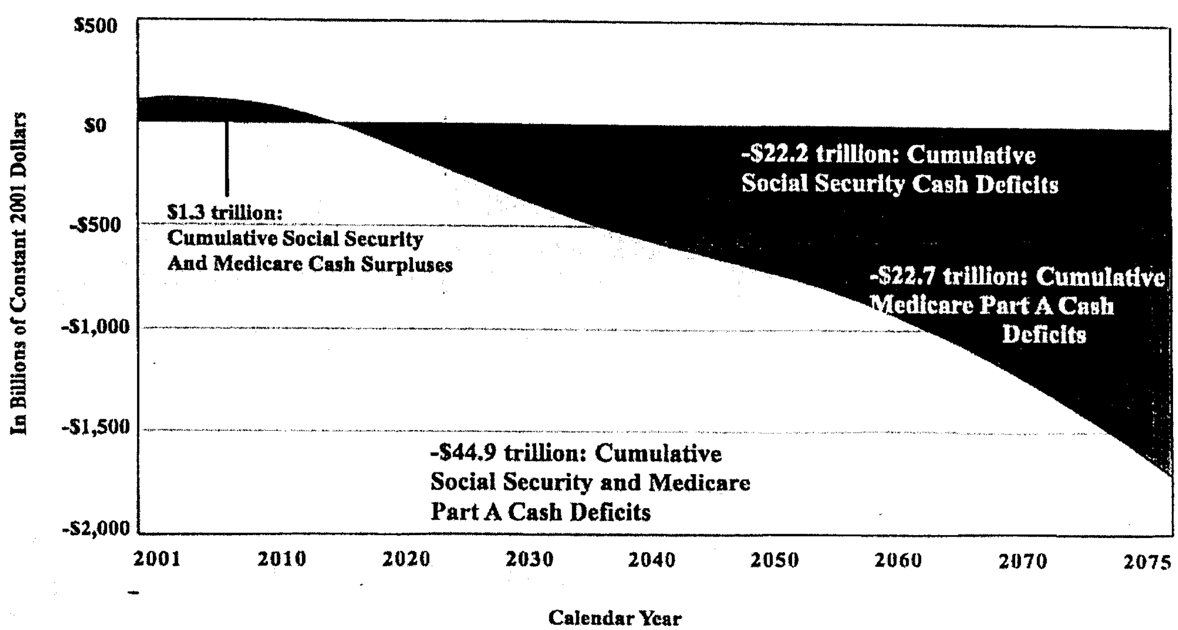
SOCIAL SECURITY AND MEDICARE PART A CUMULATIVE CASH SURPLUSES AND DEFICITS IN CONSTANT 2001 DOLLARS 2001-2075



53

Increase the figure by $7 Trillion for the Prescription Benefit !

"There are tens of trillions of dollars in discounted net present value of commitments and obligations that aren't adequately addressed... We would have to have tens of trillions of dollars invested at Treasury rates today to make good on those promises and we just don't have it..."

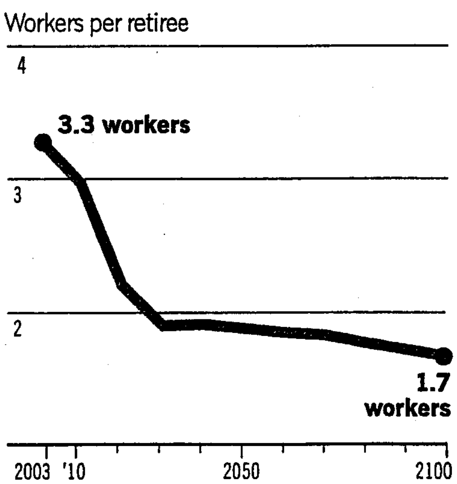
"... We face a demographic tidal wave that is unprecedented in the history of this country..."

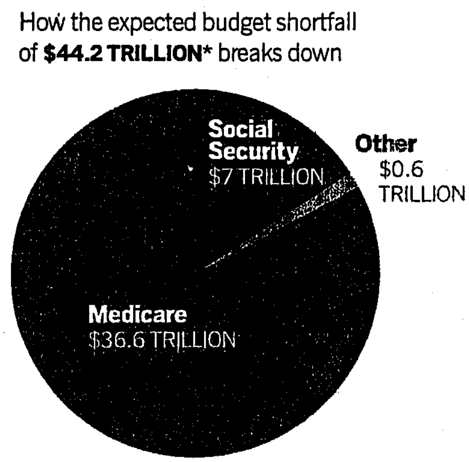
> **Donald Walker, Comptroller General of the United States**
> **Fortune, Sept. 10, 2003**

"This particular insurance company [the Federal Government] has made promises to it's policyholders that have a current value $20 trillion or so in excess of the revenues that it expects to receive..."

> **Peter Fisher, Treasury Undersecretary for Domestic Finance**
> **Wall Street Journal, Jan. 2003**

GULP The first massive wave of baby-boomer retirees will hit five years from now. That will leave fewer workers to pay for ballooning Social Security and Medicare bills.





*Based on current government revenue and spending.

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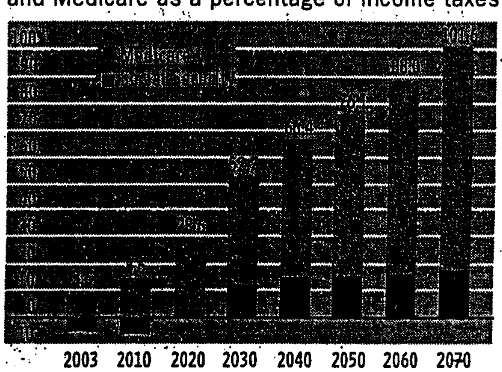
Pity the Kids

General Revenue Transfers to Social Security and Medicare as a percentage of Income taxes

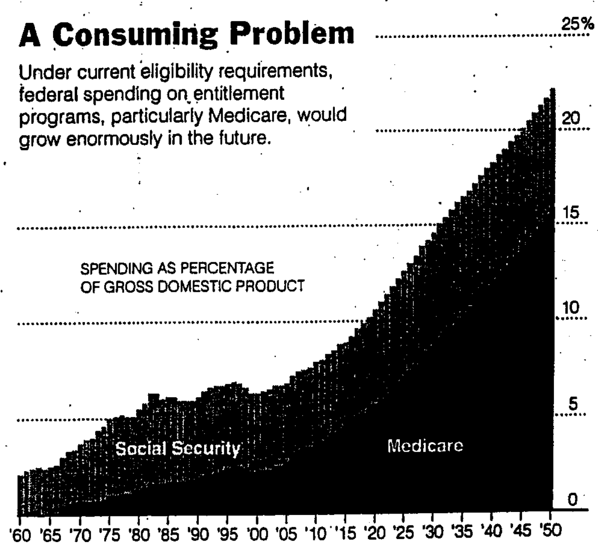


Notes: Federal Income Taxes are estimated to be 10.89% of GDP, which is the 50-year average.

Source: 2004 Social Security and Medicare Trustees Reports and author's estimates.

A Consuming Problem

Under current eligibility requirements, federal spending on entitlement programs, particularly Medicare, would grow enormously in the future.



Source: Congressional Budget Office

The New York Times

ANTIQUATED PAY-AS-YOU-GO ACCOUNTING:
Key to the Baby-Boom Retirement Crisis

"3 SETS OF BOOKS"

Sound like Don King or Enron??

-$318 billion
Official deficit

-$760 billion
Audited version

-$3.5 trillion
Corporate-style

What's the *real* federal deficit?

How many billions (or trillions) of dollars depends on how you do the accounting

The official deficit tally for the 2005 fiscal year comes from Congress and the White House.

The audited version is from the Treasury Department and follows standard accounting principles.

The third figure is based on accounting rules like those used by corporations and includes the costs of Social Security and Medicare.

By Dennis Cauchon
USA TODAY

Cover story

The federal government keeps two sets of books.

The set the government promotes to the public has a healthier bottom line: a $318 billion deficit in 2005.

The set the government doesn't talk about is the audited financial statement produced by the government's accountants following standard accounting rules. It reports a more ominous financial picture: a $760 billion deficit for 2005. If Social Security and Medicare were included — as the board that sets accounting rules is considering — the federal deficit would have been $3.5 trillion.

Congress has written its own accounting rules — which would be illegal for a corporation to use because they ignore important costs such as the growing expense of retirement benefits for civil servants and military personnel.

Last year, the audited statement produced by the accountants said the government ran a deficit equal to $6,700 for every American household. The number given to the public put the deficit at $2,800 per household.

Please see COVER STORY next page ▸

Sources: Congressional Budget Office, Treasury Department, Social Security and Medicare annual reports, USA TODAY analysis

(8)

“Hiding the bottom line from the people..delusional”

Continued from 1A

A growing number of Congress members and accounting experts say it's time for Congress to start using the audited financial statement when it makes budget decisions. They say accurate accounting would force Congress to show more restraint before approving popular measures to boost spending or cut taxes.

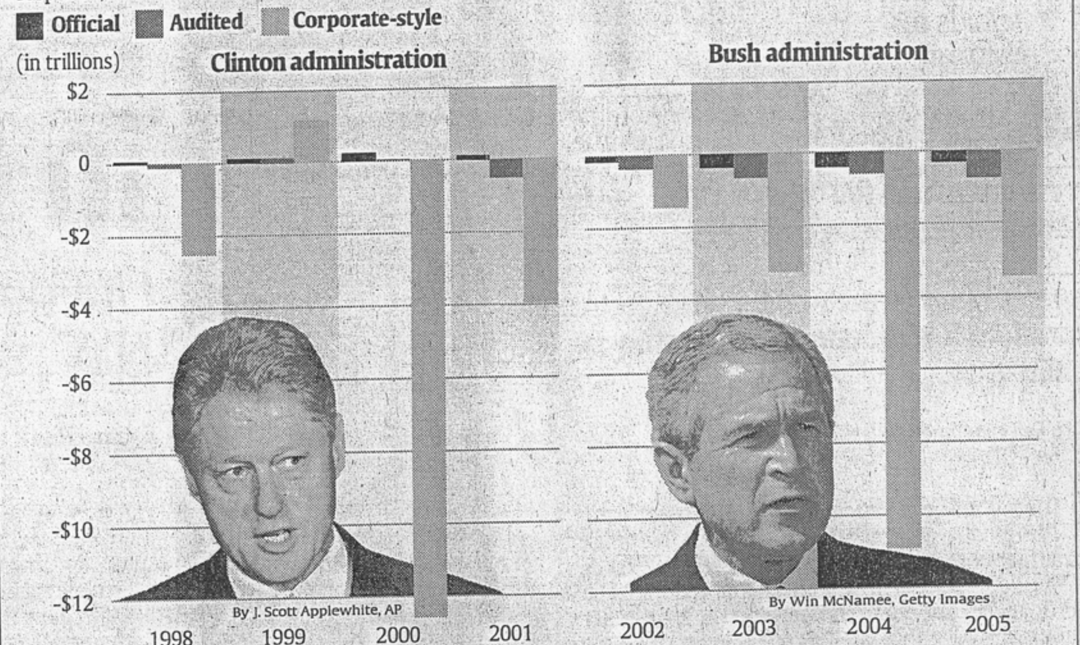
"We're a bottom-line culture, and we've been hiding the bottom line from the American people," says Rep. Jim Cooper, D-Tenn., a former investment banker. "It's not fair to them, and it's delusional on our part."

The House of Representatives supported Cooper's proposal this year to ask the president to include the audited numbers in his budgets, but the Senate did not consider the measure.

Good accounting is crucial at a time when the government faces long-term challenges in paying benefits to tens of millions of Americans for Medicare, Social Security and government pensions, say advocates of stricter accounting

Federal accounting masks larger deficit

The federal deficit is far larger than officially reported when standard accounting rules are used. The president and Congress use lenient accounting rules that reported a $318 billion deficit in 2005. The government's audited financial statement, which follows standard accounting rules, reported a $760 billion deficit. The government would have reported a $3.5 trillion deficit if required to use the stricter accounting rules that corporations follow. Federal budget deficits or surpluses, based on different accounting standards, for fiscal years ending Sept. 30:



Sources: Congressional Budget Office, Treasury Department, Social Security and Medicare annual reports, USA TODAY analysis

By Marcy E. Mullins, USA TODAY

Cover story

rules in federal budgeting.

"Accounting matters," says Harvard University law professor Howell Jackson, who specializes in business law. "The deficit number affects how politicians act. We need a good number so politicians can have a target worth looking at."

The audited financial statement — prepared by the Treasury Department — reveals a federal government in far worse financial shape than official budget reports indicate, a USA TODAY analysis found. The government has run a deficit of $2.9 trillion since 1997, according to the audited number. The official deficit since then is just $729 billion. The difference is equal to an entire year's worth of federal spending.

Surplus or deficit?

Congress and the president are able to report a lower deficit mostly because they don't count the growing burden of future pensions and medical care for federal retirees and military personnel. These obligations are so large and are growing so fast that budget surpluses of the late 1990s actually were deficits when the costs are included.

The Clinton administration reported a surplus of $559 billion in its final four budget years. The audited numbers showed a deficit of $484 billion.

In addition, neither of these fig- ... ered a government liability for accounting purposes.

Policing the numbers

The government's record-keeping was in such disarray 15 years ago that both parties agreed drastic steps were needed. Congress and two presidents took a series of actions from 1990 to 1996 that:

▶ Created the Federal Accounting Standards Advisory Board to establish accounting rules, a role similar to what the powerful Financial Accounting Standards Board does for corporations.

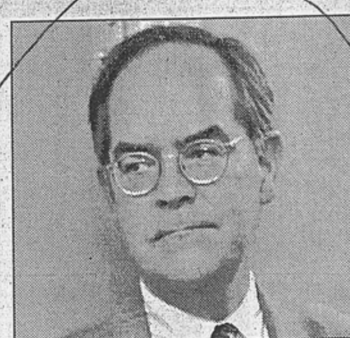
▶ Added chief financial officers to all major government departments and agencies.

▶ Required annual audited financial reports of those departments and agencies.

▶ Ordered the Treasury Department to publish, for the first time, a comprehensive annual financial report for the federal government — an audited report like those published every year by corporations.

These laws have dramatically improved federal financial reporting. Today, 18 of 24 departments and agencies produce annual reports certified by auditors. (The others, including the Defense Department, still have record-keeping troubles so severe that auditors refuse to certify the reliability of their books, according to the government's annual report.)

The culmination of improved ...



By John Russell, AP

"We're a bottom-line culture, and we've been hiding the bottom line from the American people."

!!

— Rep. Jim Cooper, D-Tenn

Congress. The request died when the House and Senate couldn't agree on a budget. Cooper has reintroduced the proposal.

The Federal Accounting Standards Advisory Board, established under the first President Bush in 1990 to set federal accounting rules, is considering adding Social Security and Medicare to the government's audited bottom line.

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Recognizing costly programs

Adding those costs would make federal accounting similar to that ...

counting change. That's because generally accepted accounting principles require reporting financial burdens when they are incurred, not when they come due.

For example: If Microsoft announced today that it would add a drug benefit for its retirees, the company would be required to count the future cost of the program in today's dollars, as a business expense. If the benefit cost $1 billion in today's dollars and retirees were expected to pay $200 million of the cost, Microsoft would be required to report a reduction in net income of $800 million.

This accounting rule is a major reason corporations have reduced and limited retirement benefits over the last 15 years.

The federal government's audited financial statement now accounts for the retirement costs of civil servants and military personnel — but not the cost of Social Security and Medicare.

The new Medicare prescription-drug benefit alone would have added $8 trillion to the government's audited deficit. That's the amount the government would need today set aside and earning interest, to pay for the tens of trillions of dollars the benefit will cost in future years.

Standard accounting concepts say that $8 trillion should be reported as an expense. Combined with other new liabilities and operating losses, the government ...

BBC NEWS U.S. "FISCAL TSUNAMI"

David Walker, U.S. Comptroller General

Stephen Sackur talks to America's Auditor -in-Chief, David Walker. Is America facing an economic disaster?

Click here to watch the full interview

The richest, most powerful nation on earth faces a fiscal "tsunami" which threatens to overwhelm Government and citizens alike.

Who says so? America's auditor in chief, David Walker, whose job it is to oversee all Federal spending.

He's pleading with US politicians and taxpayers to face up to the harsh economic realities that come with an ageing population and spiralling budget deficits.

But is economic disaster really so close at hand?

Stephen Sackur talks to David Walker.

".. The American people have to understand where we are, where we're heading, and the consequences of inaction.."
-David Walker, U.S. Comptroller General

"..The choices you have to make are exactly opposite to what wins elections.."
-Leon Panetta, White House Chief of Staff

".. If an issue is not on the tips of your constituents tongues, it's easy to ignore.."
-Al Gore, Vice President & Senator

See TV interview with David Walker, U.S. Comptroller General at: http://www.FullHouseTrader.com/aaii_presentations.htm

Deficit looms just when need starts to explode

MEDICAL COSTS SOAR AS FUNDING MUST BE CUT

New knees, hips are hot

As Americans age, demand for artificial joints expected to soar

By Ronald Kotulak
Tribune science reporter

As many Americans live longer and exercise more—and many others become increasingly obese—the number of artificial joints that will be needed to replace damaged knees will jump 673 percent by 2030 to 3.48 million a year, a new study said.

The need for artificial hips will climb 174 percent over the same period to 572,000 a year, said Steven M. Kurtz of Exponent Inc., a Philadelphia-based engineering and scientific consulting firm. The study is to be presented Friday at the American Academy of Orthopaedic Surgeons' annual meeting at McCormick Place in Chicago.

The huge increase in artifi-

osteoarthritis, and improvements in artificial joint technology that dramatically relieve pain and disability, experts say.

"A generation ago, when artificial joints were not available, individuals that had joint problems were crippled," said Dr. Joshua J. Jacobs, associate chairman of orthopedic surgery at Rush University Medical Center. "They couldn't participate in the workforce and there was an enormous economic impact.

"Now that these artificial joints are available, people can be returned to the workforce and returned to a higher quality of life," said Jacobs, who was not involved in the study.

Nine out of 10 people getting an artificial knee replacement report fast pain relief, improved mobility and a better quality of life, according to a 2003 National Institutes of Health report.

"Five to 10 years ago, people who got into their 70s would think they were maybe too old

versity Feinberg School of Medicine. "People have become more comfortable that these things are going to last a long time, even when used for aggressive activities."

Joints normally sustain wear over time. The cartilage cushion between bones gradually erodes, causing pain when the bones rub together. This process is exacerbated by vigorous exercise or sports activities, which may injure joints, and putting on excessive pounds, which places greater pressure on joints. Artificial replacements are made of metal and plastic.

The study projecting increased use of artificial joints is also seen as a harbinger of a looming health-care crisis as medical technology eases the lives of more patients, but greatly increases costs. As costs escalate, they could add to pressures to deny underserved patients the benefits of this technology, medical experts say.

"There's always been this concern that with the Baby

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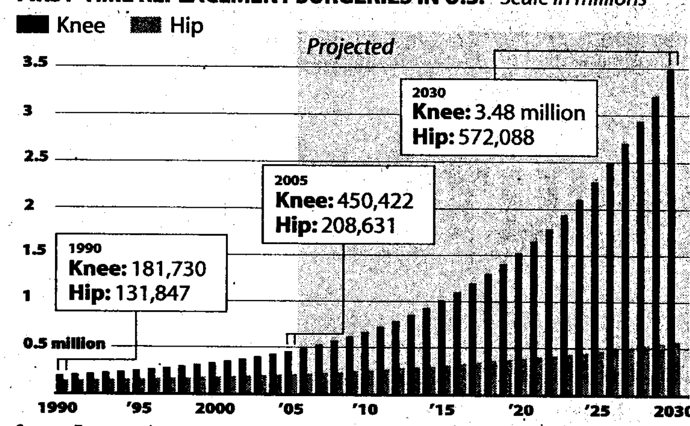
Growing demand

A new study projects a huge increase in the demand for knee-replacement procedures in the years ahead. Hip surgeries are also expected to increase, but not so dramatically.

FIRST-TIME REPLACEMENT SURGERIES IN U.S. *Scale in millions*



Source: Exponent Inc.
Chicago Tribune

big increase in implants may mean there will not be enough orthopedic surgeons to meet demand unless measures are taken to increase the number of medical school students majoring in orthopedics.

Another concern, Jacobs said, is that after 10 years, 10 percent of the artificial joints had to

istry similar to those in Sweden and other countries, he said.

The registry keeps track of all hospitals and surgeons who perform artificial joint implants, and the types of joints they use, to monitor their success and failure rates. Hospitals with higher failure rates receive educational information

HOUSE APPROVES BUDGET CUTBACKS OF $39.5 BILLION

By SHERYL GAY STOLBERG

WASHINGTON, Feb. 1 — House Republicans eked out a slim victory on a $39.5 billion budget-cutting package on Wednesday as a handful of skittish Republicans switched their votes in last-minute opposition to the measure's reductions in spending on health care and student loans.

The vote helped President Bush deliver on his promise to rein in federal spending while underscoring deep anxiety within the party over cutting social welfare programs in an election year.

The measure represents the first major effort by lawmakers since 1997 to cut the growth of so-called entitlement programs, including student loans, crop subsidies and Medicaid, in which spending is determined by eligibility criteria.

It passed 216 to 214, with 13 Republicans voting against. The Senate, with Vice President Dick Cheney casting the decisive vote, had approved the spending cuts in December. The bill now goes to the White House for Mr. Bush's signature.

Coming on the heels of the Tuesday's State of the Union address, the vote was a critical test of Mr. Bush's ability to hold his fractured party together. The House also voted Wednesday to extend the broad antiterrorism bill known as the USA Patriot Act until March 10, giving House and Senate negotiators time to settle differences on another of Mr. Bush's priorities, a measure to revamp the Patriot Act and make it permanent.

The spending bill, which covers a five-year period ending in 2010, will achieve savings of $6.4 billion in Medicare, the health care program for the elderly, through a variety of changes that include higher premiums for all beneficiaries, with steeper increases for the more affluent and a freeze in payments to home health care providers. In the Medicaid health care program for the poor and disabled, $4.8 billion will be saved in part by increasing co-payments and reducing payments for prescription drugs.

After years of cutting into social programs, the budget vote spotlighted how difficult it will be for Mr. Bush to press ahead with even deeper cuts this year. While the bill has strong appeal to the fiscal conserva-

Continued on Page A16

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washingtonpost.com

Medicare Will Go Broke By 2018, Trustees Report

By Amy Goldstein
Washington Post Staff Writer
Tuesday, May 2, 2006; A03

The financial troubles daunting the Medicare system have deepened during the past year, according to a government forecast that says the federal fund that pays for hospital care for older Americans will become unable to cover all its bills a dozen years from now.

The annual report, issued yesterday by the trustees who monitor the fiscal health of the Medicare and Social Security programs, said the trust fund for the health insurance system for the elderly will run out of money in 2018 -- two years sooner than predicted a year ago and 12 years sooner than had been anticipated when President Bush first took office.

The problem, the report says, has accelerated largely because hospital costs last year were greater than expected.

The forecast also said that Social Security's financial condition has weakened, although its problems are not as great or urgent. It said the retirement system will have enough cash to pay the benefits it owes retirees, disabled workers and workers' survivors until 2040 -- one year less than expected in the 2005 forecast.

In releasing the report, the trustees -- including three of Bush's Cabinet secretaries -- slightly altered the message accompanying the forecast the past few years, when the administration sought to use the predictions as leverage to persuade a reluctant Congress to embrace the president's goal of letting Americans divert some of their payroll taxes into personal retirement accounts. That emphasis prompted Democrats and other critics to chastise the administration for dwelling on Social Security while Medicare's problems were more acute.

Yesterday, the president's aides -- and Bush himself -- drew attention equally to the frailty of the two largest benefits programs that form the twin pillars of the government's assistance to the elderly. The solution, they said, is for Congress to approve changes Bush already has proposed.

Treasury Secretary John W. Snow, one of the trustees, said the programs "form the basis of a looming fiscal crisis for our nation as the baby-boom generation moves into retirement."

"The systems are going broke," Bush said in a health-care speech earlier in the day. "And now is the time to do something about it." E6

Administration officials portrayed the report as containing some bright news, because spending on the

Retiree benefits grow into 'monster'

Taxpayer burden: $510,678 a family

By Dennis Cauchon
USA TODAY

5-25-06

Taxpayers owe more than a half-million dollars per household for financial promises made by government, mostly to cover the cost of retirement benefits for baby boomers, a USA TODAY analysis shows.

Federal, state and local governments have added nearly $10 trillion to taxpayer liabilities in the past two years, bringing the total of government's unfunded obligations to an unprecedented $57.8 trillion.

That is the equivalent of a $510,678 credit card debt for every American household. Payments on this delinquent tax bill must start soon if financial promises to the elderly are to be kept.

The cost of retirement programs will start to soar when baby boomers — 79 million born between 1946 and 1964 — begin collecting Social Security in 2008 and Medicare in 2011.

"This is a monster financial problem that both parties are going to have to solve," says Rep. Jim Cooper, D-Tenn., a member of the House Budget Committee. "Most Americans and Congress members don't realize the terrific burden we are putting on future generations."

USA TODAY compiled a list of all taxpayer liabilities — federal, state and local — to provide a fuller look at the nation's financial condition. The numbers are based on official government reports.

Americans' government obligations are five times what people owe for mortgages, car loans, credit cards and other personal debt. The $57.8 trillion liability is

The bill

Taxpayers are responsible for more than $500,000 per household for unfunded financial promises made by federal, state and local governments. How the debt breaks down:

Program	Liability per household
Medicare	$263,377
Social Security	$133,456
Federal debt	$42,538
Military retirement benefits	$25,443
State-local debt	$16,395
Federal employee retirement benefits	$14,256
State-local retirement benefits	$13,257
Other federal	$1,956
Total	**$510,678**

Source: USA TODAY research

BABY-BOOM DAY OF RECKONING NOT GOING AWAY

S&P WARNING

Pensions crisis could hit national bonds

6-5-

By Gillian Tett in London

Large industrialised countries will have their fiscal position cut to "junk" bond levels in the next couple of decades unless they deal with pensions and ageing crises, warned Standard & Poor's, a US credit rating agency.

In particular, the rising cost of social security in countries such as the US, France, Germany, Italy and Japan could push debt to levels normally associated with sub-investment grade – or junk – ratings without drastic policy change, the agency said.

"This scenario is not a prediction ... but it does reveal the dimension of the task that governments face in pruning benefits granted by unfunded state-run social security systems," the report said.

This gloomy scenario may be hotly disputed by some governments, particularly given that most large western governments are rated by the credit rating agencies – including S&P – at levels well above junk bond status, even for their long-term debt.

S&P said that it assumed most governments would be forced to change their policies to head off the looming crisis, by taking steps such as reducing pension payments.

"Governments do usually react under pressure," said Moritz Kraemer, analyst at S&P.

Nevertheless, Mr Kraemer said the agency had drawn up the scenarios to illustrate the dramatic scale of the "pressures" being created by the global ageing phenomena – and to show that the impact of these pressures could hit countries very differently in the next decade.

According to the agency's calculations, the global old-age dependency ration – or the proportion of people aged 65 compared to those of working age – will rise from 11 per cent in 2000 to 25 per cent in 2050. In a typical country this would push the

"Industrial countries will have their debt cut to junk status unles They deal with these crises.."
-S&P Rating

"U.S., Franc Germany, Italy & Japa could all pu debt to junk levels"

E23

U.S. Comptroller General: *"We the People Have to Rise Up"*

Warning of fiscal disaster

Official takes to road to point out dangers of U.S. financial policy

By Matt Crenson
Associated Press

AUSTIN, Texas—David M. Walker sure talks like he's running for office.

"This is about the future of our country, our kids and grandkids," the comptroller general of the United States warns a packed hall at Austin's historic Driskill Hotel. "We the people have to rise up to make sure things get changed."

But Walker doesn't want, or need, your vote this November. He already has a job as head of the Government Accountability Office, an investigative arm of Congress that audits and evaluates the performance of the federal government.

Basically, that makes Walker the nation's accountant-in-chief. And the accountant-in-chief's professional opinion is that the American public needs to tell Washington it's time to steer the nation off the path to financial ruin.

From the hustings and the airwaves this campaign season, America's political class can be heard debating Capitol Hill sex scandals, the wisdom of the war in Iraq and which party is tougher on terror. Democrats and Republicans talk of cutting taxes to make life easier for the American people.

What they don't talk about is a dirty little secret everyone in Washington knows, or at least should. The vast majority of economists and budget analysts agree: The ship of state is on a disastrous course, and will founder on the reefs of economic disaster if nothing is done to correct it.

There's a good reason politicians don't like to talk about the nation's long-term fiscal prospects. The subject is short on political theatrics and long on complicated economics, scary graphs and very big numbers. It reveals serious problems and offers no easy solutions. Anybody who wanted to deal with it seriously would have to talk about raising taxes and cutting benefits, nasty nostrums that might doom any candidate who prescribed them.

"There's no sexiness to it," laments Leita Hart-Fanta, an accountant who has just

PLEASE SEE CRISIS, PAGE 2

CHIEF U.S. ACCOUNTANT: "We the people must rise up."

Calculations by Boston University economist Lawrence Kotlikoff indicate that closing those gaps — $8 trillion for Social Security, many times that for Medicare — and paying off the existing deficit would require either an immediate doubling of personal and corporate income taxes, a two-thirds cut in Social Security and Medicare benefits, or some combination of the two.

Why is America so fiscally unprepared for the next century? Like many of its citizens, the United States has spent the last few years racking up debt instead of saving for the future. Foreign lenders — primarily the central banks of China, Japan and other big U.S. trading partners — have been eager to lend the government money at low interest rates, making the current $8.5-trillion deficit about as painful as a big balance on a zero-percent credit card.

In her part of the fiscal wake-up tour presentation, Rogers tries to explain why that's a bad thing. For one thing, even when rates are low a bigger deficit means a greater portion of each tax dollar goes to interest payments rather than useful programs. And because foreigners now hold so much of the federal government's debt, those interest payments increasingly go overseas rather than to U.S. investors.

More serious is the possibility that foreign lenders might lose their enthusiasm for lending money to the United States. Because treasury bills are sold at auction, that would mean paying higher interest rates in the future. And it wouldn't just be the government's problem. All interest rates would rise, making mortgages, car payments and student loans costlier, too.

A modest rise in interest rates wouldn't necessarily be a bad thing, Rogers said. America's consumers have as much of a borrowing problem as their government does, so higher rates could moderate overconsumption and encourage consumer saving. But a big jump in interest rates could cause ...

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Fed Chairman Bernanke: "A Fiscal Crisis addressed only by very sharp cuts or tax increases or both…"

Fed's leader warns of crisis

Bernanke says federal debt will threaten economy

1-19-07

ciated Press

ASHINGTON — Federal erve Chairman Ben Ber- ke warned Congress on rsday that the economy ld be gravely hurt if Social Security and Medicare aren't revamped and urged lawmakers to tackle the nation's thorny fiscal issues sooner rather than later.

"If early and meaningful action is not taken, the U.S. economy could be seriously weakened," Bernanke said in testimony to the Senate Budget Committee.

It marked the Fed chief's most forceful warning to date on the potential problems facing the U.S. with the looming retirement of 78 million Baby Boomers, the oldest of whom will start retiring next year.

This huge wave of retirees will hit the U.S. budget as well as the economy, he said.

"The longer we wait, the more severe, the more draconian, the more difficult the objectives are going to be. I think the right time to start was about 10 years ago," he said.

If there aren't policy changes by Congress and the White House, rising budget deficits are likely in the years ahead to increase the amount of federal debt to unprecedented levels, Bernanke said.

That could propel interest rates for consumers and businesses upward, which would be a worrisome development, he said.

"Thus, a vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn adds to subsequent deficits," he said.

Ultimately, a big expansion of the nation's debt "would spark a fiscal crisis, which could be addressed only by very sharp spending cuts or tax increases, or both," Bernanke warned.

The budget deficit in the last fiscal year was $248 billion, a four-year low. Bernanke noted the improvement, but likened it to a "calm before the storm."

Spending on entitlement programs will begin to climb quickly during the next decade, he said. Federal spending for Social Security, Medicare and Medicaid will total about 15 percent of gross domestic product by 2030, compared with roughly 8.5 percent of GDP in 2006, he said.

Forecasts call for the deficit to worsen for the 2007 budget year. The Congressional Budget Office is projecting $286 billion in red ink, while the White House is predicting an even bigger shortfall of $339 billion.

"In the end, the fundamental decision that Congress, the administration and the American people must confront is how large a share of the nation's economic resources to devote to federal government programs, including transfer programs such as Social Security, Medicare and Medicaid," he said.

Bernanke did not discuss the future course of interest

"Economy could Be gravely hurt"

"would propel Interest rates"

"Vicious cycle"

"Spark a fiscal Crisis…"

"calm before The storm"

"The longer we wait, the more severe, the more draconian, the more difficult it will be. The right time to start was 10 yrs ago"

[Note: Clinton's Danforth Commission was 12 yrs ago!]

NEW MEANS TESTING FOR MEDICARE PREMIUMS

Medicare premiums to rise 5.6%

Richest to pay up to 83% more

By Julie Appleby
USA TODAY

Medicare premiums will rise 5.6% next year — to $93.50 a month — and wealthy seniors for the first time will begin paying an additional amount.

Health care Most of the about 43 million Medicare beneficiaries will pay a modest $5 a month more than the $88.50 they pay this year, the smallest increase since 2001. But about 1.5 million wealthier seniors will pay more: $106 to $162 a month depending on their income.

"These income-related premiums will reduce Medicare costs by $7.7 billion over five years and $20 billion over 10," said Medicare chief Mark McClellan on Tuesday. "They are an important step in improving Medicare's sustainability."

Affected are those who earn more than $80,000 individually, or $160,000 as a couple.

Congress approved the new income-based charges as part of the same 2003 law that created the new prescription drug benefit, but it has received little public debate until now.

While wealthier workers have always paid more in taxes to support Medicare, the new income-based premiums are seen by critics as an attack on a basic egalitarian premise of the program: That everyone pays the same and gets the same benefits.

"Medicare is not a welfare program; it's social insurance designed to pool healthy and less healthy people," says Maria Freese, director of government relations and policy for the National Committee to Preserve Social Security and Medicare. "Insurance doesn't charge rich people more than poor people."

Most Medicare members premiums for Part B, which co doctor visits, lab tests and hosp outpatient services. Medicare b eficiaries pay 25% of the expec costs of those Part B servi About 7 million low-income peo have their Part B premiums paic the government.

On Tuesday, Medicare offic said the Part B monthly incre that will affect most Medic members was nearly $5 lower th had been projected in May. The nouncement comes as Congress expected to soon debate wheth to overturn next year's plann

for most seniors

'y 5.1% cut in doctor payments. If such action had already occurred, premiums could have risen an additional $1.50 a month.

"Most Medicare beneficiaries will see relatively modest cost increases compared with recent health care trends," McClellan said.

But Freese and other critics of the income-based premiums took issue with McClellan's statement that the income-based premiums will help Medicare's finances. She says the additional charges will do little to bolster Medicare's finances and could drive wealthier, healthier seniors out of the program, possibly causing costs to rise faster.

Critics also suggest that income levels at which additional payments are required will be gradually reduced, requiring more seniors to make the higher payments.

But Joe Antos at the American Enterprise Institute says the move was inevitable as Medicare spending rises.

"One of the things we have to do is ask people who have more money to pay more for government services," says Antos. "The difficult balance is finding the spot where we're charging higher-income people more but not so much more that they will simply drop out of the program."

Seniors earning $80,000 to 160,000 have their premiums increased from $88 / month to between $106 & 162 depending on income…

Philly to be largest gambling city

Five proposals vie for two slots for casinos, but opponents sue for none at all

By Martha T. Moore
USA TODAY

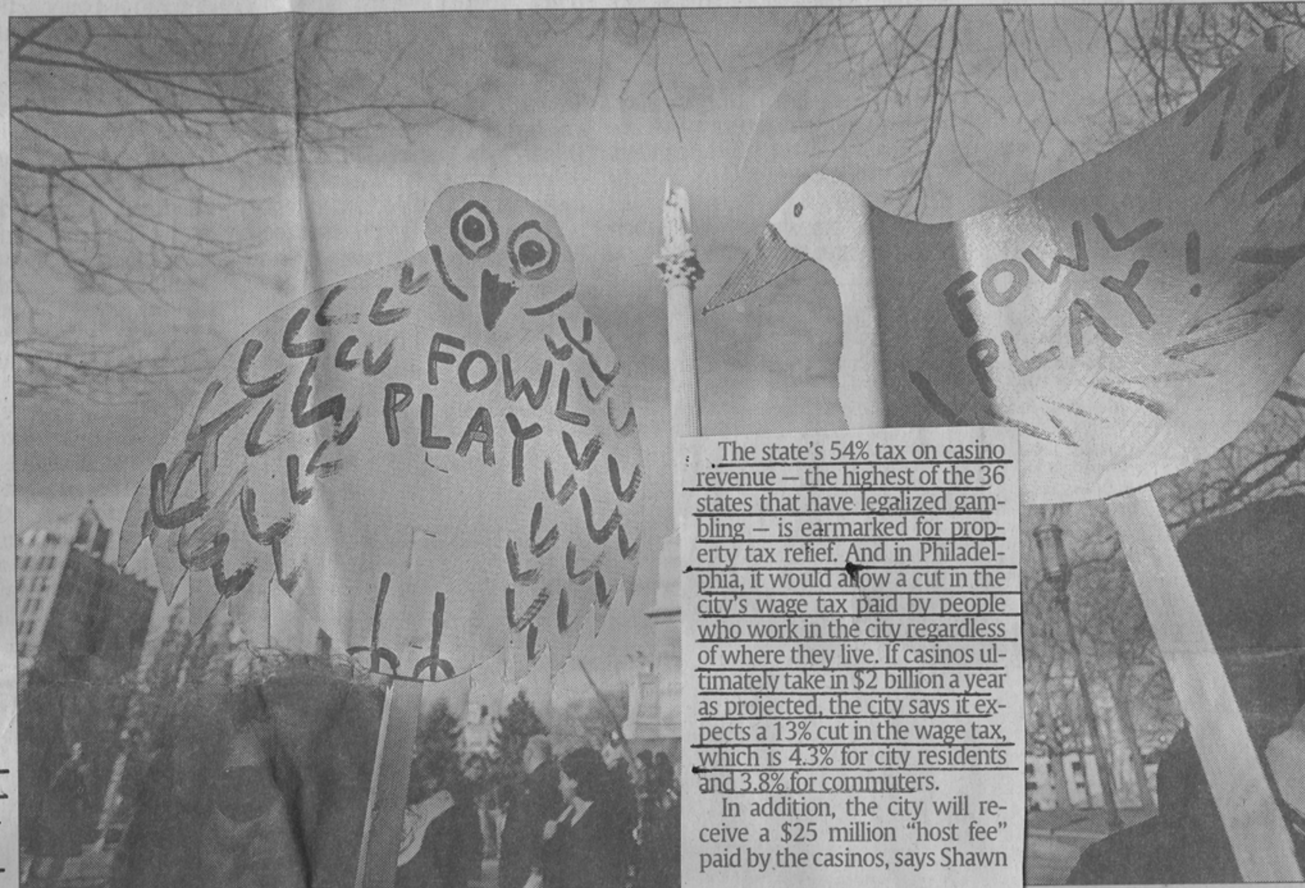
PHILADELPHIA — Visitors come here to see just one bell — the Liberty Bell. Soon they'll be looking for a row of them — on a slot machine.

Pennsylvania's 2-year-old state gaming board is to award licenses Wednesday for two slot machine casinos to be built here. That will make Philadelphia the largest city in the country with casinos and put legalized gaming within 2 miles of Independence Hall, where the founding fathers gambled their fortunes on revolution.

The arrival of slots parlors here is part of the spread of gambling through the Mid-Atlantic. New Jersey, New York and Connecticut have casinos. Pennsylvania and Delaware have slots at racetracks, and Maryland's incoming governor wants to do the same.

In Philadelphia, founded by Quakers whose religious beliefs prohibit gambling, slots casinos are facing a cold welcome from the neighbors.

In Pennsport, the riverfront neighborhood where Rene Goodwin lives in a 19th-century brick row house, the elevated bulk of Interstate 95 separates narrow residential streets from big-box stores and the city's container port. One of the casinos is proposed for a vacant site next to Wal-Mart.



Photos by Carolyn Kaster, AP

Opposing slots parlors for Philly: Protesters rally Dec. 11 outside the Pennsylvania Gaming Control Board in Harrisburg, Pa.

The state's 54% tax on casino revenue — the highest of the 36 states that have legalized gambling — is earmarked for property tax relief. And in Philadelphia, it would allow a cut in the city's wage tax paid by people who work in the city regardless of where they live. If casinos ultimately take in $2 billion a year as projected, the city says it expects a 13% cut in the wage tax, which is 4.3% for city residents and 3.8% for commuters.

In addition, the city will receive a $25 million "host fee" paid by the casinos, says Shawn Fordham, a mayoral adviser and executive director of the city's Gaming Advisory Task Force. The two casinos are projected to generate 10,000 permanent jobs.

Casino Free Philadelphia has gone to court to try to overturn the 2004 state law allowing slots. Jethro Heiko, who heads the group, says the public hasn't seen the casinos' final proposals that were modified after the period for public com-

borhood bordering three of the proposed casino sites. He has joined the lawsuit.

Last week, City Councilman Frank DiCicco, whose district is home to the riverfront casino sites, asked for a six-month delay in licensing to allow further review of the plans.

A newly formed community group, Neighbors Allied for a Better Riverfront, criticizes the city for being passive about state-imposed casinos. Mem-

Governments turn to gambling for revenues. Even conservative Kansas is permitting 3 new casinos.

 Studies on Marijuana Tax. Nation's largest crop, more than corn and wheat combined. Still, taxes & savings yield only $13bn/year.

abc NEWS

Marijuana Called Top U.S. Cash Crop

Marijuana Takes the Pot as Most Valuable Cash Crop in the Country

By NITYA VENKATARAMAN

Dec. 18, 2006 — - Weeding through the value of the nation's cash crops, a study released today states that marijuana is the U.S.'s most valuable crop and promotes the drug's legalization and taxation.

Drug enforcement officials say the equation is not that simple.

The report, "Marijuana Production in the United States," by marijuana policy researcher Jon Gettman, concludes that despite massive eradication efforts at the hands of the federal government, "marijuana has become a pervasive and ineradicable part of the national economy."

In the report, Gettman, a marijuana-reform activist and leader of the Coalition for Rescheduling Cannabis, champions a system of legal regulation.

Contrasting government figures for traditional crops -- like corn and wheat -- against the study's projections for marijuana production, the report cites marijuana as the top cash crop in 12 states and among the top three cash crops in 30.

The study estimates that marijuana production, at a value of $35.8 billion, exceeds the combined value of corn ($23.3 billion) and wheat ($7.5 billion).

Pot Tax?

To activists for marijuana legalization, the study confirms a position they've held for years, and uses government stats to support their claim.

"The fact that marijuana is America's No. 1 cash crop after more than three decades of governmental eradication efforts is the clearest illustration that our present marijuana laws are a complete failure," says Rob Kampia, executive director of the Marijuana Policy Project in Washington D.C., a group that focuses on removing criminal penalties for marijuana use.

Kampia, whose comments were included in the study's press release, adds, "Our nation's laws guarantee that 100 percent of the proceeds from marijuana sales go to unregulated criminals rather than to legitimate businesses that pay taxes to support schools, police and roads."

A 2005 analysis by Harvard visiting professor Jeffrey Miron estimates that if the United States legalized marijuana, the country would save $7.7 billion in law enforcement costs and could generated as much as $6.2 billion annually if marijuana were taxed like alcohol or tobacco.

Miron's report on the costs of marijuana prohibition was signed by more than 500 leading economists, most notably the late Nobel laureate Milton Friedman, who served as an economist in both the Nixon

ECONOMIC VIEW

ANNA BERNASEK

Health Care Problem? Check the American Psyche

NYT - Jan, 2007

WHAT is the most pressing problem facing the economy? A good case can be made for the developing health care crisis. Soaring costs, growing ranks of uninsured and a steady erosion of corporate health benefits add up to a giant drag on the nation's future prosperity.

While the outlook seems scary, it doesn't have to be. There is a solution, proven effective for hundreds of millions of people: single-payer health insurance.

Yes, single-payer — that much-maligned idea that calls for everyone to pay into one insurer, typically the government or a public agency. The insurer then pays doctors, pharmacists and hospitals at preset rates. Patients who want unapproved procedures and doctors not willing to accept the standard payment remain free to deal with one another directly, outside the system.

Such a system makes it much easier to deal with the growing costs of medical care, like administrative expenses and prescription drugs. It could also reduce the mountains of paperwork plaguing the current system and provide insurance coverage for the 46 million Americans now doing without it.

What's more, as demonstrated in France, Britain, Canada, Australia and other countries with functioning single-payer systems, significant savings can come without hurting the overall health of the population.

There's only one catch. Most Americans just don't believe it can be done. The health care crisis may turn out to be more of a problem of ideology than economics.

The economic case for a single-payer system is surprisingly strong. Start with what we already know. Countries with single-payer systems have long records of spending less on health care than the United States does. The United States spent an average of $6,102 a person on it in 2004, according to the Organization for Economic Cooperation and Development, while Canada spent $3,165 a person, France $3,159, Australia $3,120 and Britain just $2,508.

At the same time, life expectancy in the United States, a broad measure of health, was slightly *lower* than it was in those other countries in 2004, the latest year for which complete figures are available. And the United States had a higher rate of infant mortality.

To be sure, a single-payer system has plenty of critics. Unattractive features of some such systems, including waiting lists for particular types of care, are often highlighted by skeptics. But supporters note that the overall health of people fares well in those countries.

"The story never changes," said Gerard F. Anderson, a professor at the Johns Hopkins Bloomberg School of Public Health. "The United States is twice as expensive with about the same outcome.

"As a consumer, I don't mind paying more if I'm getting more, but that's just not the case in the U.S.," said Professor Anderson, who publishes an annual review comparing the American health care system with those of its peers.

What may be less well known is the level of administrative waste in the United States health care system, versus that of well-designed systems elsewhere. Although Americans tend to equate efficiency with private enterprise, that's not the case with the current system.

The American system, based on multiple insurers, builds in more unnecessary costs. Duplicate processing of claims, large numbers of insurance products, complicated bill-paying systems and high marketing costs add up to huge administrative expenses.

Then there's an enormous amount of paperwork required of American doctors and hospitals that simply doesn't exist in countries like Canada or Britain.

"There's little disagreement among economists today that a single-payer system would lead to lower administrative costs," said Len Nichols, a health economist with the New America Foundation, a policy research organization in Washington. But he said that estimates varied widely over how big the savings could be.

One of the first major studies to quantify administrative costs in the United States was published in August 2003 in The New England Journal of Medicine by three Harvard researchers, Steffie Woolhandler, Terry Campbell and David U. Himmelstein. It concluded that such costs accounted for 31 percent of all health care expenditures in the United States.

More recently, in 2005, a study by the Lewin Group, a health care consulting firm commissioned to examine a proposal to provide universal health coverage in California, estimated that administrative costs consumed 20 percent of total health care expenditures nationwide.

Then there's the test of time. Health care costs tend to rise over time as new technology and procedures are introduced. Yet here, too, government-funded systems appear to help contain long-term costs.

Consider Canada's system. Professor Anderson points out that in the 1960s, Canada and the United States spent roughly the same per person on health care. Some three decades later, though, Canada spent half as much as America. How did Canada manage this? By controlling the use of medical equipment and hospital resources, which statistics show has helped Canadians keep a lid on costs without measurably compro-

More Spending, and Less to Show for It

Although the United States spends far more on health care than these other countries, it has lower life expectancy and higher infant mortality rates than all of them.

2004:	Health care spending per person*	Government share of total spending	Life expectancy, in years	Infant mortality per 1,000 births
United States	**$6,102**	**45%**	**77.5**	**6.9**
Canada	3,165	70	79.9	5.3
France	3,159	78	80.3	3.9
Australia	3,120	68	80.6	4.7
Britain	2,508	86	78.5	5.1

*In terms of purchasing-power parity among countries.

Source: Organization for Economic Cooperation and Development

The New York Times

U.S. spends double of Canada, France, Australia, & Britain yet by some measures we have less "health".

Critical market factoid: Retiring the baby-boomers will require vast new issuance of U.S. Treasury bonds!

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U.S. BOND STRATEGY

March 1, 2006

Investment strategy and recommendations for the U.S. fixed income market

Special Report

U.S. AGING TIME BOMB: WHEN WILL IT BLOW UP TREASURYS?

The following *Special Report* was written by our Washington Editor, Dr. Rudolph Penner. Dr. Penner is currently a resident scholar with the Urban Institute, a nonpartisan public policy research organization in Washington. He has been a pre-eminent and influential analyst of budget policy for the past two decades. He was also director of the Congressional Budget Office during the mid-1980s.

Dr. Penner analyses the Bush Administration's Mid-Session Review of the Budget, and reviews the long-term outlook for fiscal policy and the budget balance. The short-run budget outlook is fairly benign. The 2006 deficit will be much lower than the Administration's estimate of $423 billion. Fiscal policy will have a roughly neutral impact on real GDP growth this year, and could be slightly contractionary in FY2007.

The good news is that the budget deficit is likely to decline as a percent of GDP for the next few years, even if the President's tax cuts are made permanent. The bad news is that little progress will be made on reforming entitlements, which are set to explode in the next decade as the population ages. Congress is unlikely to tamper with Social Security and Medicare until it is forced to do so by voters or financial markets. It may take a riot in the bond market before politicians act.

The aging time bomb is ticking. Nonetheless, the bond market is sanguine at the moment, and a declining deficit/GDP ratio in the next few years reduces the risk that a riot point will erupt in the near term. Thus, we do not think that bond investors should position for a major increase in fiscal risk premiums within a one or two year investment horizon.

If, as is often said, a country's budget is a comprehensive statement of a nation's priorities, it is clear that the American people dearly love the elderly. The total amount spent on Social Security, Medicare, Supplemental Security Income, as well as civil service, military, and veterans' retirement and disability programs will equal over $1 trillion in 2006 – about 57 percent of total Federal spending outside of defense and interest.[1] And this does not count the substantial amounts spent on the elderly within the Medicaid program or the smaller amounts spent within welfare programs, such as food stamps.

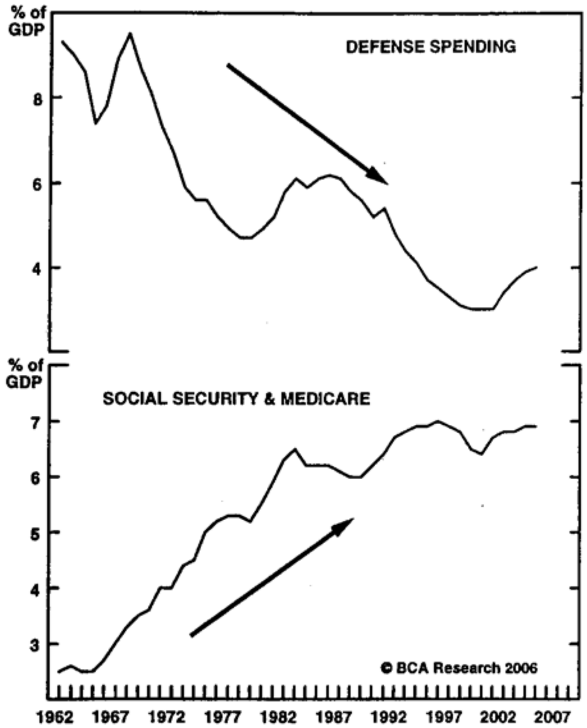
By comparison, about $500 billion will be spent on defense. Indeed, it is a secular decline in defense relative to GDP that has mainly financed the expansion of Social Security and Medicare (**Chart 1**). Means-tested programs targeted on the poor spend roughly one-third the amount spent on programs for the elderly and disabled that are not means tested.[2]

1 The $1 trillion includes amounts spent on the disabled, but elderly recipients are dominant.

2 Supplemental Security Income, a program focused on poor elderly and disabled is not included in this calculation. It should be noted that a significant portion of the spending on Social Security and Medicare goes to the poor even though they are not targeted by the programs.

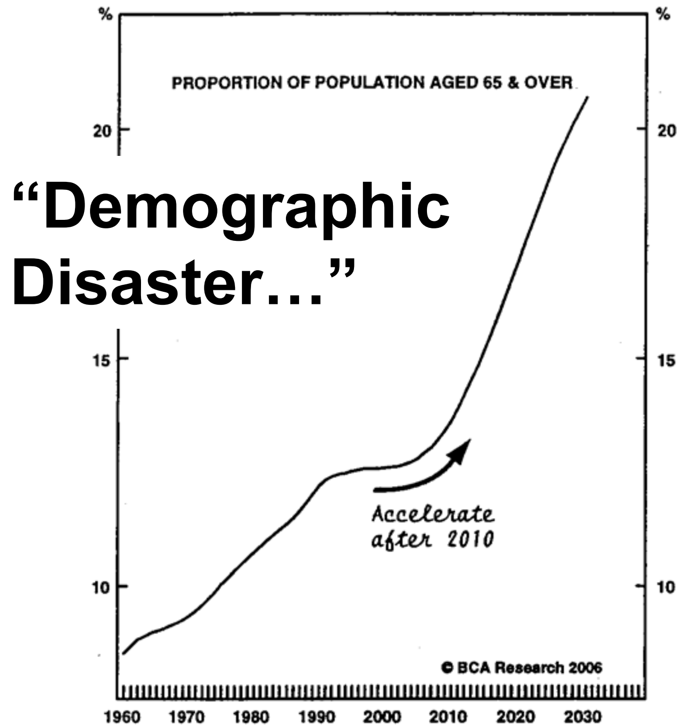
15 13

CHART 1
Defense Makes Way For Entitlements



SOURCE: CONGRESSIONAL BUDGET OFFICE

CHART 2
Demographic Disaster Looms



As is well-known, the elderly population will begin to soar over the next decade because of aging baby boomers and increasing longevity. Also, the per capita cost of providing the elderly and disabled with health care can be expected to continue to grow faster than per capita income (**Chart 2**). As is also well-known, this means that the programs for the elderly are not sustainable in their current form.

This problem does not seem to make much of an impression on either Congress or Wall Street. The latter is important, because the financial community represents one of the few constituencies that could scare Congress into fiscal discipline.

A recent auction of 30-year U.S. Treasury bonds went very well, yielding lower interest rates than expected. It is, at least, interesting to note that in 2036 when these bonds mature, reasonable projections of the financial implications of current policy imply that the U.S. public debt will exceed 200 percent of GDP. The buyers of these bonds must assume either that they will be able to sell them before anyone begins to worry about this budget trajectory, or that the trajectory will eventually be made sustainable by fundamental programmatic reforms.

Financial Markets Will Have To Riot

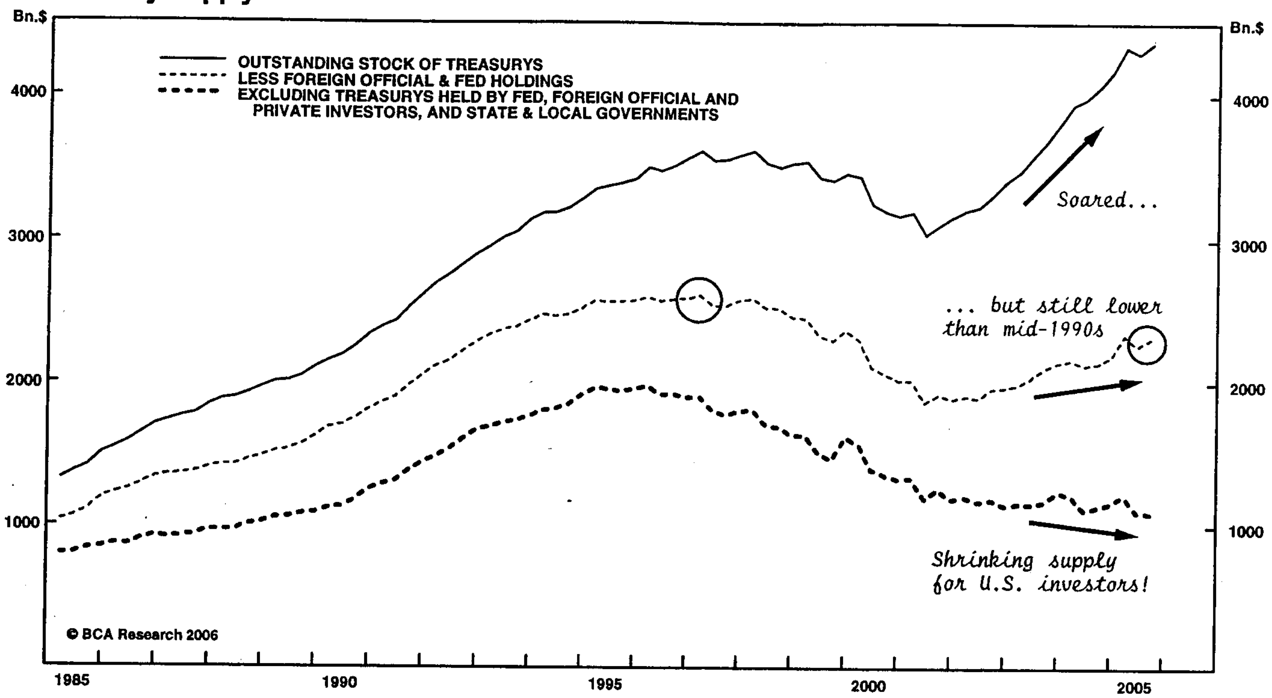
Given Congress' current mood, it is extremely difficult to envision significant reforms unless they are prompted by a financial crisis. When might such a crisis occur? It is difficult to say, because financial markets are so fickle in their attitude toward fiscal policy. They went into some turmoil when Jimmy Carter put out a budget in January of 1980 that had a deficit of $16 billion. A short time later, they accepted Reagan's deficits of more than $200 billion with total equanimity.

The bond market would likely have priced in a significant fiscal risk premium by now, if it were not for Treasury purchases by foreign central banks. **Chart 3** shows that the outstanding stock of

E14

Monetary stimulus of 2001-02 didn't start the economy. Shift to fiscal stimulus (federal deficits). T-Bond supply explodes over 4 years to finance economic recovery yet interest rates remain low. How? Foreigners bought U.S. bonds!

CHART 3
Treasury Supply



Treasurys has surged to over $4 trillion. However, the stock available to the private sector (i.e. after Fed and foreign central bank purchases have been excluded) has risen much more slowly and amounts to a little over $2 trillion. Foreign demand helps to explain why real yields have stayed so low in the face of the budget blowout.

One can identify certain crucial events that may attract attention and provoke a Wall Street reaction. The first baby boomer applies for Social Security in 2008, and qualifies for Medicare in 2011. Entitlement spending starts to rise much faster than GDP by 2013. Later in the decade, the cash flow of the Social Security trust fund turns negative. Some time in the mid-2020s, the public debt passes 100 percent of the GDP.

The rating agencies will play an important role in the reaction of financial markets. At what point do they choose to downgrade the U.S. government debt? In my view, they have sufficient reason to do it now. But they hesitate, because that action would be so traumatic, and they still hold out hope for reform. Financial markets will likely react before the rating agencies make any moves. The 2008 Presidential election could be a turning point if reform is not seriously debated. Nonetheless, there is a good chance that financial markets will ignore the deficit until well into the next decade, when the rising proportion of retirees begins to accelerate.

The Bush Budget And The Elderly

The President made a terrible error early in his presidency by supporting a new Medicare prescription drug program that greatly worsens the budget trajectory – without demanding any significant Medicare cost savings in return. More recently, his track record is better. Last year he offered proposals for a fundamental redesign of Social Security. There were significant problems with his design, but that was almost irrelevant to the subsequent debate. His opponents were able to sink the whole notion of reform without having to offer alternative proposals. It is now generally agreed that

E15

Thanks to revenue collections in a growing economy, in the short run (next few years) deficits will be tamer, taking deficit pressure off of interest rates.

the Social Security debate is dead for a good long time.

In this year's budget for FY2007, the president repeats his Social Security proposal and begins to nibble at the much more serious Medicare problem. He has suggested cuts in payments to the doctors and hospitals who provide health care and increases to the Medicare premiums paid by the more affluent. He has also recommended a further automatic cut in provider payments when dedicated revenues can no longer finance as much as 55 percent of the cost of the program. Providers will strongly resist any reduction in their fees and they are busily organizing to oppose these reforms. The political unpopularity of Medicare reform represent one of many reasons why so many observers believe that this budget is "dead on arrival."

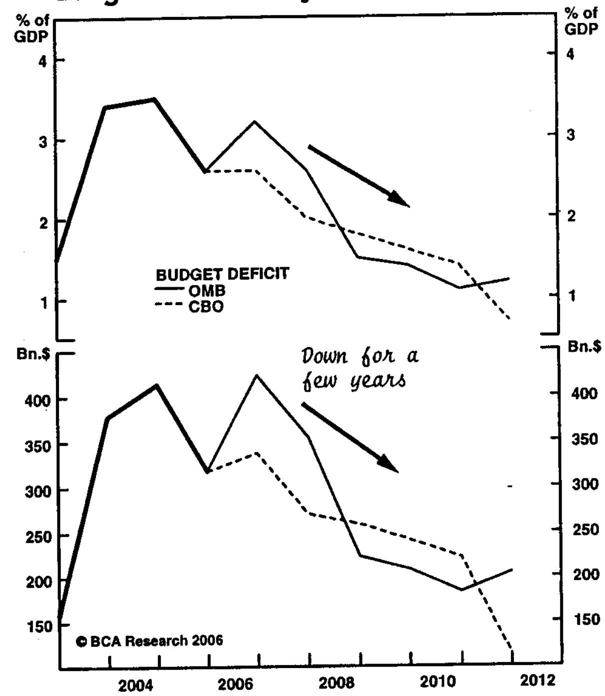
It is again probable that the President's proposal will sink without a trace, without his opponents having to propose any alternatives. If Democrats perceive that they have gained in the 2006 election by just saying "no," and Republicans perceive that they lost support because of the President's proposals, it will be a very long time before Congress returns to the long-term budget problem, unless it is forced to by financial markets.

The Deficit In The Short Run

The most curious feature of the President's recent budget is an estimate that the fiscal 2006 deficit will soar to $423 billion, or $105 billion above the 2005 level (**Chart 4**). Budget deficits are sufficiently volatile that one has to be careful about saying that this is impossible, but it sure seems implausible. The fiscal year is more than four months old and the deficit through January is $15 billion *below* that of 2005. It is true that the growth of revenues will slow significantly during the rest of the fiscal year and that the spending pace will accelerate because of the prescription drug program, but the deterioration in the last two thirds of the fiscal year

WILL TAKE PRESSURE OFF RATES,

CHART 4
Budget Picture Okay For A Few Years



would have to be extreme to reach the Administration's deficit estimate.

The Congressional Budget Office (CBO), making reasonable policy assumptions, estimates a 2006 deficit of $355 billion, fully $68 billion lower than the Administration's estimate (**Chart 4**). If policies were not changed, their deficit estimate would be $337 billion, but they expect a substantial increase in spending on Iraq and Afghanistan as well as some relief from the alternative minimum tax. Fiscal policy was slightly restrictive in 2005, as measured by the change in the standardized budget deficit. The fiscal thrust in 2006 is hard to read. The initiation of the prescription drug program will push spending upward and will be counted in naive measures of fiscal thrust, but much of this will be a substitute for private spending on drugs. Will individuals spend their drug savings on other things or will they put it in a bank account? There is no major change in tax policy, although the standardized deficit will make the continued surge in individual income receipts appear restrictive. It is more accurate to think of that increase in the tax burden as

E1b

True Bombshell: Who would have thought the U.S.A. would ever need an "IMF Workout" ???

IMF wins key role in closing trade gaps

FT, 4-24-06

■ Fund given mandate to target global imbalances

By Chris Giles and Krishna Guha in Washington

Leading countries secured a breakthrough in the governance of the global economy at the weekend, transforming the role of the International Monetary Fund and putting it at the centre of a more co-operative effort to resolve trade imbalances.

The IMF was given a mandate to start immediate negotiations between the countries with the largest trade imbalances. Its goal will be to secure agreements to reform economic and exchange rate policies to close trade gaps and prevent a global financial crisis. If successful, it could lead to big changes in economic policies, including an appreciation of China's renminbi.

Causes of global imbalances will come under the spotlight in the first IMF "multilateral consultation", including low levels of US savings, the inflexibility of the Chinese exchange rate and surpluses in Japan, Germany and among oil producers. Participating nations will use the IMF as a forum to seek solutions to these problems.

Rodrigo Rato, IMF managing director, said the fund's analysis would be published, putting additional pressure on countries to agree, since it would not have any tools to force policy changes.

All IMF members, including China, supported the new procedures. The members also agreed that some emerging countries should be given greater ownership and voting rights.

Mr Rato said the changes to the fund's purpose in addressing global imbalances was "a very important step in the role of the fund in tackling global imbalances but also in producing an encouraging, co-operative response to global issues".

The US, in particular, is pleased at the growing recognition that its record trade deficit is the product of global forces, not just its own government deficit, and has to be resolved in a way that sustains global growth.

A senior US official said: "I think that surplus countries are beginning to understand that there will be no adjustment unless they are a part of it."

Even senior G7 officials sceptical about the chances of progress were delighted. David Dodge, governor of the Bank of Canada, said there had been "strong support for building an IMF to do the job that it needs to do in the 21st century".

But differences remained on the responsibility for the world's trade gaps and the meaning of the IMF's new surveillance role.

European Union ministers continued to insist that since Europe's trade was in balance, the issue was primarily one between the US and Asia.

Zhou Xiaochuan, governor of the People's Bank of China, warned the IMF's governing body not to use multilateral surveillance as a mechanism to attack its exchange rate policies. "If surveillance is wrongly focused on an evaluation of the exchange rate level ... it will hardly be objective and certainly miss more fundamental issues."

Support for deal, Page 2
Consequences of Doha failure, Page 15

"Governance of world economy..."

"... low levels of U.S. savings..."

IMF plaudits on imbalances deal

By Chris Giles and Krishna Guha in Washington

The weekend agreement to establish "multilateral surveillance" and "multilateral consultations" to address global trade imbalances may not sound like a breakthrough. The terms are steeped in jargon and the International Monetary Fund lacks the power to force changes to individual countries' domestic economic policies unless they are forced to borrow from it.

But even the most sceptical finance ministers and central bank governors viewed the IMF meeting as a great success. There was finally a shared understanding that huge trade gaps represent the biggest threat to the world economy.

A willingness to act needed an institutional framework in which to secure agreements from individual countries, which was absent before this weekend's meetings in Washington.

Rodrigo Rato, the fund's managing director, said multilateral consultations would be a "process that goes beyond analysis and description of problems, and engage in discussions with the specific governments about the linkages and spillovers of the macroeconomic situation, and in relation to others and the global economy".

The IMF will report on the effects, for example of Chinese policies on the US trade deficit, and call together relevant countries to see if agreement on policy changes can be reached. The process will have four elements.

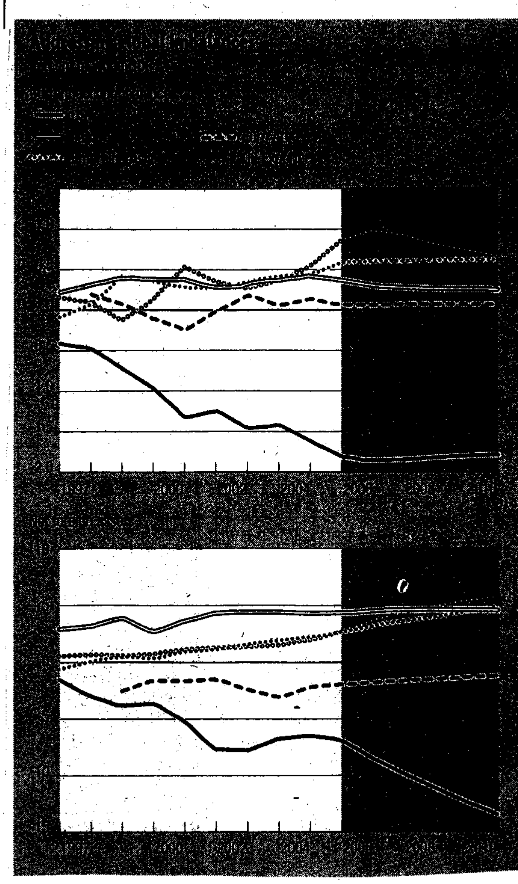
First, a strict remit for the IMF only to get involved in international issues where the policies of one country affects others.

Second, all IMF members will have to restate their commitments to each other under Article IV of the IMF. This allows them to choose their own economic and exchange rate policies so long as they "avoid manipulating exchange rates or the international monetary system to prevent effective balance of payments adjustment or to gain an unfair competitive advantage".

Third, where problems arise, the IMF's managing director has the right to call "multilateral consultations", forcing groups of countries to explain how their domestic policies are compatible with Article IV and seek agreement on changes.

Fourth, the IMF's members will annually vote on

in some ways as important as the European Union Maastricht Treaty!!



OBVIOUS TARGETS OF THIS "Governance"

← U.S. Trade Deficit

← U.S. Net Foreign Assets (investment flows)

FIRST IMF "PRESCRIPTION" FOR U.S. FINANCIAL MESS:

CUT DEFICIT EVEN IF TAX INCREASES ARE REQUIRED...

...ure. ... report in today's issue of the

6-8-06 Topeka Cap J.

IMF URGES MORE AMBITIOUS DEFICIT GOAL: The International Monetary Fund on Wednesday urged the Bush administration to set a more ambitious goal of eliminating the federal budget deficit over the next five years and said tax increases may be needed to accomplish that objective. The IMF proposal was included in the agency's annual review of the U.S. economy. The agency has made the suggestion before.

Gold rallies not only linked to dollar weakness but to mounting industrial world deficits… and likely to looming financing needs related to retiring the baby boomers…

Rallies in Silver, Gold May Be Tied To Debt Concerns

By Spencer Jakab

COMMODITIES REPORT

Judging by the big moves in global financial and commodity markets last week, it would be easy to conclude that a serious fear of inflation had taken hold.

Gold—the classic hedge against inflation—hit a 25-year high, while silver surged to a 22-year peak. Then there was the selloff in Treasurys, with the 10-year yield hitting 4.88%, its highest point since before the Federal Reserve started raising interest rates in June 2004. Copper and zinc hit all-time highs, crude-oil futures topped $67 a barrel, up over 10% year-to-date, and the dollar fell against many key counterparts. "The bets out there in the marketplace are interconnected," said Bart Melek, senior economist at BMO Nesbitt Burns in Toronto.

Investors took profits in many of these markets by Friday, but the confluence of moves—and the long-running rally in such key commodities as gold, silver and oil—has begged the question of whether there's a growth or inflation common denominator.

At face value, renewed inflation fears appear to be the most logical explanation. During inflationary periods, hard assets are considered a repository of value while investors demand higher yields in long-term bonds. But some economists see a major shift in global fund flows as the real culprit and say that there is more to come.

"You have these people who think commodity booms are inflationary, [but] I'm not so sure," said Anais Faraj, global strategist at investment bank Nomura in London. "Consumer-price inflation is quite low, wage pressures are quite low."

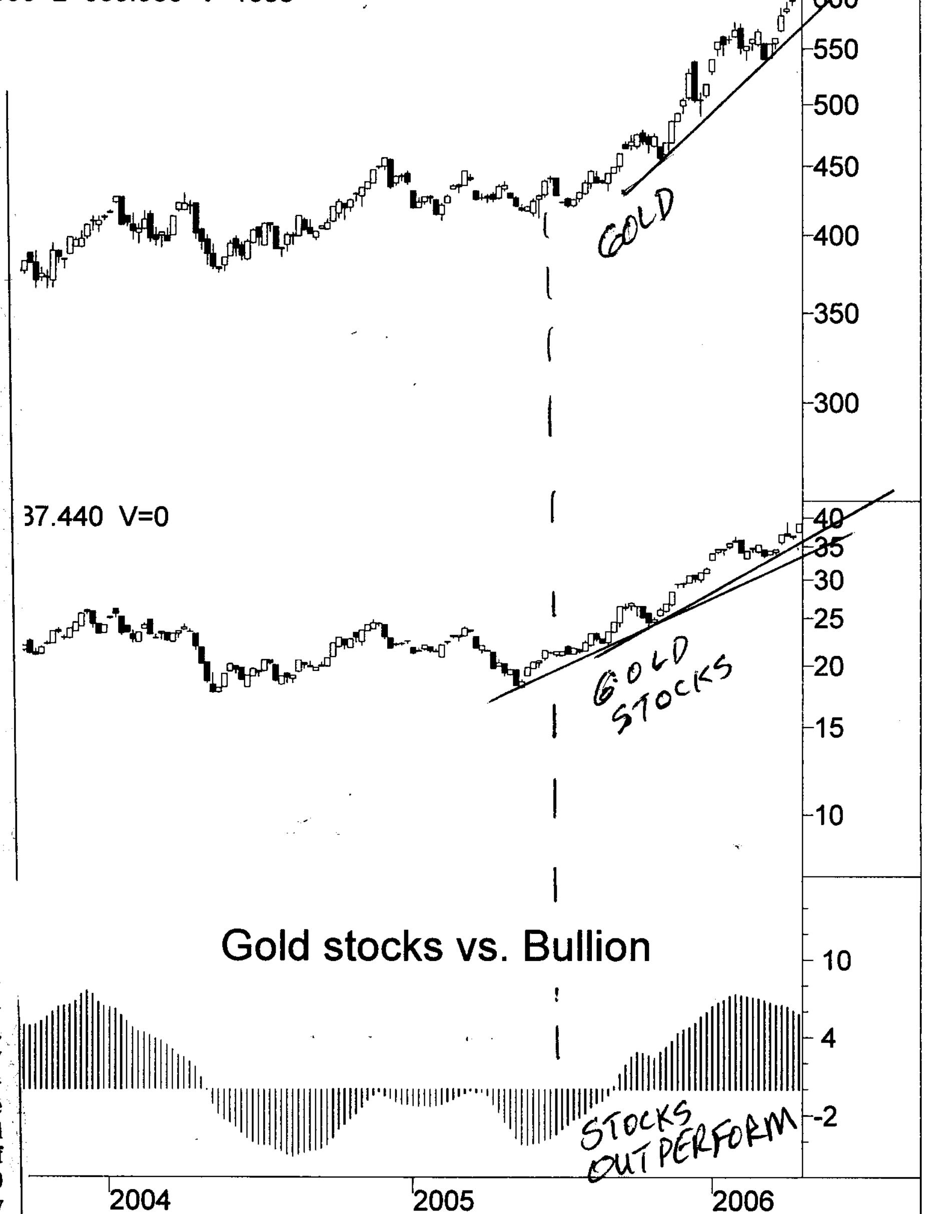
Instead, he said, the dislocations in these asset classes may be linked to a fear that the tide of cheap financing provided by Asian savers in recent years to net borrowers such as the U.S. may be slowing or even reversing, posing a risk to assets in large debtor nations and meaning potentially more gains for hard assets such as certain commodities.

The U.S., with its massive current-account deficit, is now soaking up two-thirds of global savings in order to finance its consumption. Much of this "wall of money," as some traders describe it—$3 billion each business day—is parked in Treasurys and other debt securities. Mr. Melek suggested that the flight to gold and other safe-haven investments might be a response to fears that the dollar could come under pressure from reduced foreign willingness to plug the gap.

Mr. Melek noted that hedge funds are talking about increasing their direct exposure to hard assets. This would have a disproportionate effect on commodity prices due to the relative sizes of the markets. U.S. stock and bond markets are worth trillions of dollars while physical commodities are valued in the hundreds of billions. He predicts that gold will hit $700 an ounce in the next 18 months. On Friday the price of gold was $581.80 an ounce.

04/21/2000 (GO1600) Gold CMX 1600 04/21/2006

Gold CMX 1600-Weekly 04/21/2006 C=632.600 +36.100 O=605.900 H=632.600 L=605.900 V=1533



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Good News: World's 2nd largest economy emerges from decade of the doldrums

BCA RESEARCH

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Special Report

April 4, 2006

BCA Research is one of the world's leading independent providers of global investment research

JAPAN: THE SUN FINALLY RISES

- It has taken a long time, but corporate and financial restructuring in Japan have made significant progress in unwinding the excesses and imbalances created by the burst asset bubble of the 1980s.
- A more broad-based economic recovery is taking hold in Japan and the era of deflation is ending. However, policymakers will need to remain cautious about tightening monetary and fiscal policy.
- There are still huge long-run challenges related to a rapidly aging population, a grim fiscal picture and an inefficient service sector. It remains to be seen whether policymakers will take the necessary action needed to deal with these problems.
- The equity market has already risen strongly, but renewed buying by domestic investors should push prices higher over the next year. It is too soon for global investors to cut positions.
- The outlook for Japanese bonds is bearish. The yen should appreciate, but the country's structural problems suggest that it may need to stay a relatively cheap currency by historical standards.

Japan's economy has, at last, succeeded in emerging from its prolonged adjustment phase, which continued for more than a decade, and has embarked on a sustainable growth path with price stability.

Toshihiko Fukui
Governor of the Bank of Japan
March 16, 2006

Into The Light?

Japan's economic performance during the past 15 years has been the worst of any major industrialized country since the Great Depression, reflecting a classic case of post-bubble economic and financial fallout, compounded by disastrous policy errors. Real GDP increased at an annualized pace of only 1.5% between end-1989 and end-2005, half the rate of U.S. growth.[1] However, the country does seem to be finally moving from the economic darkness into the light.

The key reason for optimism is the major progress in unwinding the large excesses and imbalances that were the legacy of the burst asset bubble. The corporate sector is now in good health, the banking system is making good progress in strengthening balance sheets, and the era of deflation is drawing to a close. Moreover, policymakers are unlikely to repeat the previous mistake of tightening prematurely.

The equity market has already responded to the improved outlook, with the TOPIX index rising by more than 40% in the second half of last year. Since then, the index has consolidated, but has just edged above a major resistance level where it peaked on

1 The contrast is even starker in nominal terms with annualized growth of 1.1% in Japan and 5.3% in the U.S.

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Bad News: World's 2nd largest economy faces a huge Baby-boom retirement financing problem.

The Fiscal Situation is Grim

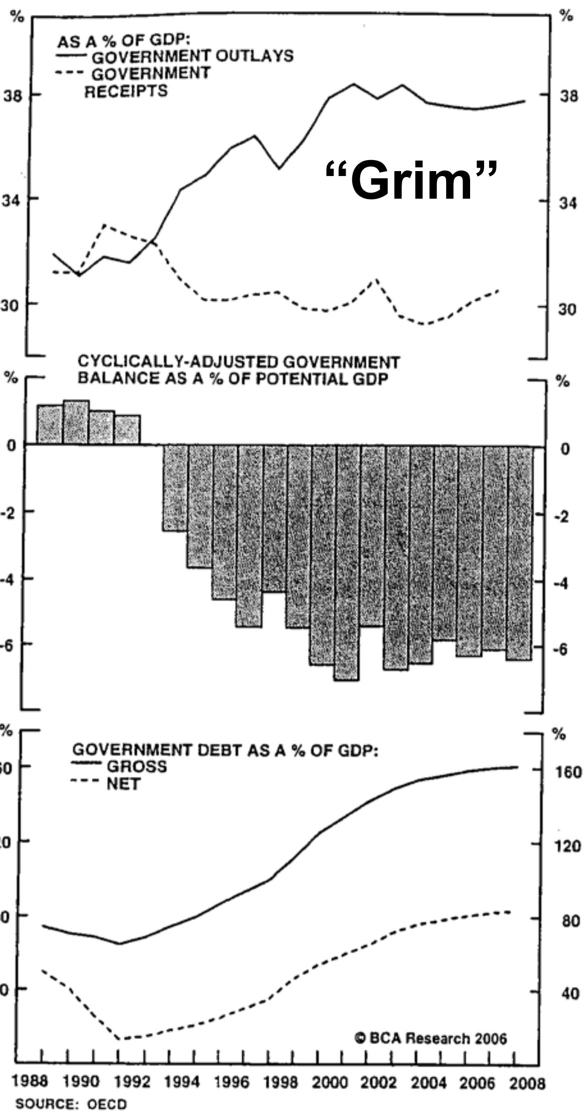
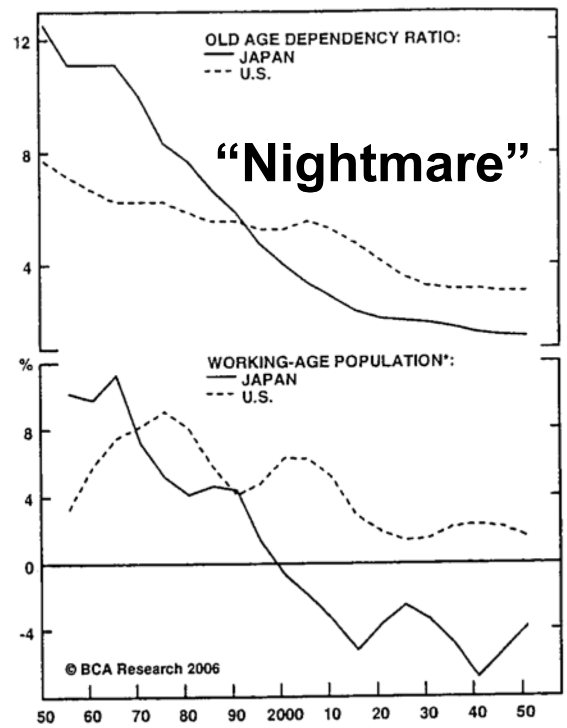


CHART 10
A Demographic Nightmare



SOURCE: UNITED NATIONS, 2004 POPULATION REPORT
*POPULATION AGES 15 TO 64
SHOWN AS A % CHANGE OF 5 YEARS

Structural Challenges

It is well known that Japan faces severe demographic problems because of its rapidly aging population. The ratio of those of working age (15 to 64) to those over 64 has dropped from 6.6 to 3.3 in the past 20 years and is projected to fall to only two in the coming decade. In comparison, in the U.S. there is projected to be 5 people of working age for every retiree by 2015 (**Chart 10**).

The rolling five-year growth rate of the 15-64 year age cohort has already dropped below zero in Japan and will move deeper into negative territory in the years ahead. Conversely, growth in the U.S. will slow, but will stay positive.

Demographic trends in Japan will have powerful effects. It is clearly very negative for fiscal trends as fewer taxpayers will be supporting a rising number of elderly who will require pensions and increasing amounts of medical care. At the same time, a falling labor force implies a very low growth rate for potential GDP — probably in the 1% to 1½% range over the medium term. Moreover, an aging population is not likely to be dynamic or conducive to accelerating productivity growth.

As the population ages, Japan's high saving rate should come down, as should its trade surplus. Fortunately for Japan, it is a huge international creditor nation, and it may increasingly become a rentier nation, living off the income of its overseas assets.

Japan could partially solve its demographic crisis with more immigration, but that seems unlikely to occur any time soon. This means that there will not be any rapid economic growth to bail the country out of its fiscal mess. The authorities face the

11

What do politicians focus on ?

Forget sleep, it's time for fundraising

Candidates need $274,000 daily just to compete

THE PRESIDENTIAL CAMPAIGN

By Mike Dorning
Washington Bureau

WASHINGTON — The Iowa caucuses that kick off the presidential campaign are nearly a year away. For the most viable contenders, make that one year and $100 million away.

Sen. Hillary Rodham Clinton (D-N.Y.) has that capacity, and other contenders believe they do as well.

To wage a serious presidential campaign in 2008, the ante is $50 million raised by Dec. 31 of this year, said one adviser to Sen. Barack Obama (D-Ill.). And that is just to get a place at the table.

Those are daunting figures. To make the $100 million mark in a year, a candidate must bring in an average of nearly $2 million a week. That's $274,000 a day, including Sundays and holidays, all of it raised in increments legally limited to no more than $2,100 per person.

Start late or fall behind and the burden increases. "Every single day, the biggest part of your day is fundraising. Fundraising is going to take up more of your time than sleep if you're a candidate," said Democratic strategist Tad Devine, who advised presidential nominee Sen. John Kerry (D-Mass.) in 2004.

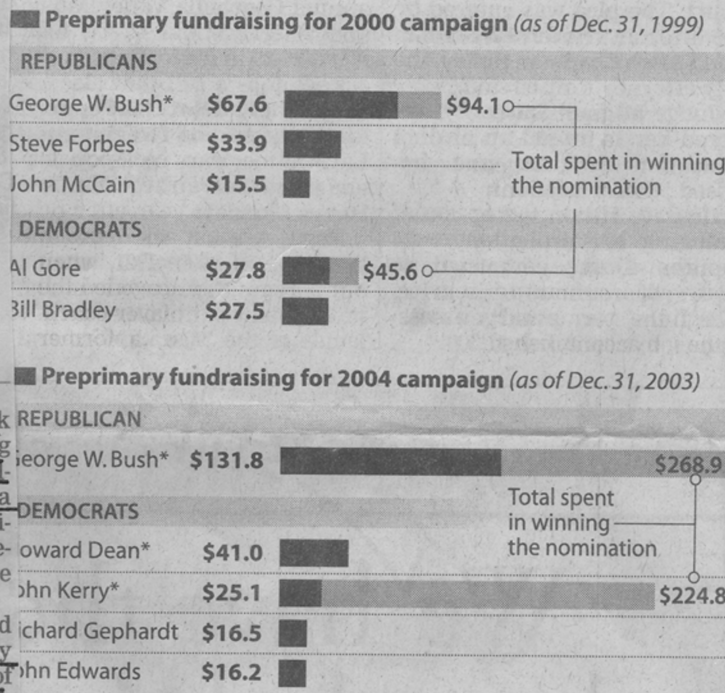
Clinton and New Mexico Gov. Bill Richardson joined in the competition for campaign money last weekend, announcing their own presidential exploratory committees less than a

PLEASE SEE MONEY, PAGE 12

Cost of contending on the rise

Preprimary season fundraising has become increasingly important for presidential campaigns. It will take at least $50 million for candidates to have a serious shot at winning a party's nomination in 2008, and some could raise $100 million or more, campaign watchers say.

Top amounts for major party presidential candidates, in millions of dollars



Declined public matching funds.

Note: Preprimary fundraising includes contributions candidates made to their own campaigns. (Forbes: $28.7 million in 1999; Kerry: $2.9 million in 2003)

Source: Federal Election Commission

Chicago Tribune

COST OF PRESIDENTIAL CAMPAIGN:

To reach Iowa Primary: $50 to 100 million

To reach Nov. Election: $225 million and up