

Numbers don't lie, Bushes do

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March 20, 2002—Deconstructing the national debt means understanding the difference between GAAP (Generally Accepted Accounting Principles) and BFAP (Bush Fantasyland Accounting Principles).

According to BFAP, the figure for the publicly stated national debt is \$5.65 trillion. When the national debt is deconstructed in terms of GAAP, however, you'll find that the accumulated national debt is closer to \$14 trillion.

This figure can be calculated by plugging in debt (either current or future debt, which will have to be paid) that is not included in the BFAP numbers. The \$5.65 trillion number comes principally from the accumulated Social Security deficit of \$3.2 trillion, combined with some provisions for the 3 percent non-marketable US Treasury notes that have been inserted into the other 43 public trust funds. They have made unrealistic projections regarding the so-called "mandated spending gaps," which are actually much higher than the figures they use.

There is a reason why the deficit did not come down during the Clinton years, despite the surplus engendered by the relatively prudent economic management of the Clinton administration. The national debt should have diminished, but instead it rose slightly from \$5.42 trillion to \$5.65 trillion. Of course, the Republicans would say disingenuously that Clintonomics wasn't working and the surpluses are a farce.

The debt was not falling though because Treasury instruments, previously issued during the Reagan-Bush Regime to finance the "smoke and mirrors" accounting trick of "off-budget financing," were coming due for redemption at a greater rate. In other words, the bonds, which were essentially off-the-books were coming due for redemption. The Treasury Department did not even have an accurate accounting because of the massive shredding of more than 7 million documents late in the Bush administration. They still don't even know how many are outstanding.

When you look at all the appropriations (I actually did this and it took me about three days), you have to look at all the individual appropriations and see how much of it was "off-budget financed." By going back to the congressional budgetary records, you can find out how much was financed off budget. In the 1980s, for example, you'd see a Congressional Committee and if the appropriation passed, they'd actually say, "We'll put \$8 billion on the books and \$2 billion off-record or off-budget." This was an effort to obfuscate the actual size of the annual fiscal budget deficits during the Reagan Bush Regime. Everyone then would agree—because at the time nobody even questioned this off budget financing. Nobody even understood what it was all

about. The markets never questioned it. The American people never questioned it, and they never even tried to hide it.

When there is a fiscal budget deficit, it means that everything is deficit financed, so the only way the money is coming in to make up the gap is through the sale of Treasury instruments. You don't necessarily know which series of Treasury instruments because it isn't figured that way. There are regular weekly, monthly, and quarterly sales of US Treasury bills, notes and bonds, which are used to finance spending appropriations.

Even though there is no way to actually translate that into budget figures, I would estimate that there were about \$400 billion of bond redemptions, which were directly caused by off-budget financing during the Clinton Regime. This number can be ascertained by looking at the total budgetary surpluses generated by the Clinton Administration. Then you can find how much of that money was actually used to repurchase and retire Treasury instruments. The Treasury Department has these figures because the Treasury Department had to execute the orders. So you could find out how many Treasury instruments were repurchased and, of course, retired.

When a corporation repurchases its stock (to support the shares in the marketplace or if they need the shares for their ESOPs and so on), those shares are not retired. They are simply repurchased by the company, which reduces the outstanding "float," the amount of shares floating on the market at any given time. It doesn't change the debt to equity ratio or the book value of those shares because the shares aren't being retired. There is a difference.

When you repurchase and retire debt, you change the debt to equity ratio and you actually increase the equity vs. the debt part of the ratio.

In other words, according to the way it's calculated by GAAP accounting standards, the national debt rose about \$230 billion during the eight years Clinton was in office. Yet there were \$373 billion worth of US Treasury instruments, which were repurchased and retired. So obviously there's something wrong.

If we subtract the total number of Treasury instruments purchased and retired and then subtract that number from the amount the national debt grew according to GAAP, we come up with a surplus of \$143 billion. Accumulated debt should have diminished by \$143 billion instead of increasing.

In other words, there were more bonds coming in for redemption than the Treasury Department had calculated. There is, therefore, an unknown amount of Treasury instruments outstanding that the Treasury is unaware of due to "smoke and mirror" accounting practices and the massive shredding of documents during the Reagan Bush Regime. The Department of the Treasury is uncertain how many debt instrument had been issued and sold pursuant to so-called "off- budget financing."

There is probably still \$1.5 trillion outstanding in a variety of Treasury instruments, obligation notes, collateral guarantees etc., that the Treasury Department is not counting as debt because it is unsure how many securities are outstanding.

What else is not being counted as debt, which actually is debt, is the compounded interest in arrears, which is incurred every year by the 3 percent coupon non-marketable US Treasury Securities, used to make up for the \$3.2 trillion that the Reagan Bush Regime defrauded from the Social Security General and Disability Trust Funds.

Since these securities are not marketable, the interest simply compounds in arrears. In other words, of that \$3.2 trillion in Social Security debt (even before George Bush said they will be raiding Social Security again), the debt actually increases by \$100 billion a year because of the compounded interest in arrears that should be calculated on non-marketable securities. That will either have to be paid when a future government should engender sufficient fiscal surpluses in order to redeem these non-marketable instruments or at such time that a future government, like the successor to the Bush Administration, should be forced to convert these securities into marketable securities.

The Clinton policy was to generate surpluses, but he didn't even get that far. Using prioritized debt reduction, he planned to repurchase and retire US Treasury instruments, then divert the surpluses and begin to repurchase these non-marketable Treasuries out of the Social Security portfolio in order to retire them. They would have had to repurchase them at such a price as to pay the compounded interest in arrears. The 3 percent coupon rate borne by these securities was not a number chosen at random, but rather it is the interest rate that Social Security pays on your "contributions."

Reaganomics dictates, as George Bush has admitted, that there will be no budgetary surpluses. There will be nothing but deficits. So how do you refund the money? How do you put back the money you previously stole from Social Security? In other words, how does Bush Jr. put back the money his father Bush Sr. stole in a fiscal budgetary deficit situation?

You can do this by converting these securities from non-marketable to marketable, simply by removing the restrictive covenant. In the securities business, it's called "removing the letter."

The president would have to authorize it. Then these securities would become, in market parlance "free to trade." They would simply be sold into the marketplace, incorporated as part of ongoing sales of Treasury instruments.

That takes a lot of assumptions. You can't convert an unrestricted security that has an implied debt in it because of interest in arrears. You have to recalculate the number. In other words, there are \$3.2 trillion of these non-marketable bonds stuck in the Social Security portfolio, but that number is increasing by a \$100 billion per year because of the interest.

In eight years time, you'd have to re-issue more of the bonds. You wouldn't be selling \$3.2 trillion of them. You'd be selling \$4 trillion and that is making the assumption that in the future the Treasury market will be sufficiently liquid to absorb such a massive amount of debt instruments. An additional supply of \$4 trillion would increase the entire outstanding issuance of all Treasury securities by 50 percent.

Liquidity depends on the economic strength, the gross domestic product, the liquidity of funds at any given time, investor interest in these Treasury notes, foreign central banks' demand or need for these notes, and the interest spread differentials between the long and short end of the maturity. There are actually a lot of factors involved.

To try to market \$4 trillion worth of securities into a market, in which the Treasury might be selling \$300 billion or more per annum in order to finance a budget deficit—this would effectively double the sales for a period of fifteen years.

The question then becomes—could the entire global economy even generate sufficient surplus liquidity to absorb those bonds?

We are in a world that is gradually falling apart and in an era of global debt deflation that could potentially last for decades, until everything was finally unwound and collapsed. The portrayal of a rosy scenario, which the Bush Administration likes to depend on for its economic forecast, thus becomes even more highly suspect.

Here's another smoke and mirrors accounting trick. Treasury lists these 3 percent non—marketable Treasury notes as current assets in the Social Security portfolio. In fact, they're not. They're not liabilities, either, but they're not current assets because they're not marketable. The SEC has clearly stated that they aren't worth anything. A security that isn't marketable because it has some restricted covenant attached isn't worth anything.

If they didn't have restrictions, that would have defeated the entire purpose. If your intent was to raid Social Security (as the Reagan Bush Regime wanted to do) to deplete all of its cash, you can't deplete cash and then replace it with a near cash instrument. US Treasury instruments are considered near cash instruments for accounting purposes. A non-marketable security isn't a debit. That way you can issue them almost ad infinitum.

Also not included in the national debt figure is the unknown billions of dollars that the Reagan Bush Administration raided from the 43 Public Trust Funds, in which it used the same non-marketable Treasury instruments to replace the cash it had stolen.

The “mandated spending gaps” that were created during the Reagan Bush Regime are also not being counted as debt. A “mandated spending gap” is money that was previously authorized for something that was supposed to have been spent, but which was not spent—because the money was stolen. This occurred throughout the Reagan Bush Regime, particularly after 1984, when the deficits really began to balloon. The Administration, in its annual budget, would skim some of that money off the top and move it over to Defense to make it appear that we were spending less money on defense than the enormous sums we were already spending.

This was hidden through what was called “mandated to spend authorized delayed projects” because there was no money left to fund the projects. In other words, a federal agency like the Department of Education, which was supposed to spend so much on certain projects, didn't have the money to complete various building projects and have sufficient money for school restoration

it was required to spend because a certain percentage of that money had been skimmed off the top.

Therefore they would have what were called “delayed funding projects,” so that at the end of the year when they had to account for the money, there would be a caveat that would explain that some of the money was in “delayed construction pending.” To hide the loss, they would reduce the maintenance contracts, or stretch them out, without making a notation for it in the budget.

Here’s the problem. According to General Accounting Office, this has created a \$350 billion spending gap in the Federal education budget. This has to be spent and the result of this “spending gap” is we have public schools, which are falling apart because they haven’t been properly maintained and a shortage of classrooms because the Department of Education has not built as many schools as it had planned to build.

At some point in the future, that hole of \$350 billion will have to be plugged with cash, so that what was supposed to have been done will be done. Otherwise the problem of schools falling apart because they haven’t been maintained properly will grow even more severe.

What happens is the “hole” keeps getting carried forward. The Department of Education is used as an example here. But there are budgetary gaps in every federal agency, which now total in the aggregate about \$1.5 trillion.

This has happened because of the Reagan Bush Regime’s misappropriation of monies throughout the federal agencies to mask the money, which was being spent on defense. We currently have accumulated spending gaps, which total about \$1.5 trillion.

The largest of those gaps is what’s called “Net Infrastructure Spending,” which includes Department of Transportation, Department of Interior, Department of Commerce, Bureau of Land Management, etc., about 18 different agencies responsible for infrastructure spending.

It’s estimated to be \$550 billion. And what are the results? The nation’s bridges and roads are in a dire state of disrepair. A GAO report has stated that 25 percent of the nation’s federal highway system is now “dangerous,” and 28 percent of the nation’s bridges are also considered “dangerous.” Then there are the airport computer systems, the butt of jokes since half of the equipment still use vacuum tubes.

When maintenance technicians go to the General Services Administration to replace parts, they can’t even find them because they stopped making these parts forty years ago. A maintenance tech at Logan Intl Airport actually had to go to somebody who deals in antique electronics instrument to find the vacuum tube he needed. That is the net result of this nonsense—road and bridges are falling apart and antiquated air traffic control systems are still in use. Internal waterways are also falling apart—18 percent of all internal waterways, canals etc., that the federal government is responsible for had to be shut down because they don’t work anymore.

These are some of the larger items in the national debt that aren’t being counted as national debt. If you applied Generally Accepted Accounting Principles to the national debt, these things would

be included, as well as contingent liabilities—either future real liability or future contingent liability, including billions of dollars the United States is obligated to pay because of a variety of treaties. For instance, the US Federal Reserve maintains a \$50 billion emergency stand-by credit fund to support the Canadian dollar in the event it collapses. We still have multi-billion dollar commitments around the world that constitute debt—money that has to be spent and for which there are no provisions. There are also debts to the United Nations in arrears and debts to the IMF in arrears.

We also have an enormous amount of liability in the ill-conceived so-called “Brady Bonds.” Brady Bonds are essentially US Treasury securities, which get stripped of their coupon payment and become what’s called a “strip” or “stand alone asset.” They are used to back loans, mostly coming from banks or bond funds for marginal Third (and Second World) countries like Mexico, Brazil, Peru and Argentina.

If you look at these more speculative high interest rate government bond funds, you’ll find they’re loaded with Mexican bonds or Brazilian bonds. What happens is that these Brady bonds get issued as the ultimate guarantor of principal, yet they do not guarantee interest payment. When you ask the Treasury Department, nobody seems to know how many of these Brady Bonds have been issued. It is known that hundreds of billions of dollars of them are out there. They were used to bail out Mexico and Russia, but nobody seems to know how many there are. Not only that, but nobody cares.

These are some of the highlights why the national debt is not what it appears to be, according to BFAP accounting. When you apply GAAP accounting to the national debt, you find that the national debt is actually about \$14 trillion. That’s called RWA, or Real World Accounting.

The Clinton administration was operating under the assumption that the actual national debt was about \$14 trillion. Clinton said we have to raise \$15 trillion by 2025 to pay off everything, all the national debt, all the unsecured instruments outstanding, and to plug all the holes in unfunded spending measures and so on. That’s \$14 trillion, plus another trillion for compounded interest over a 25-year period. The number of \$15 trillion would have done the job. He was even going to retire about \$200 billion of Savings Bonds outstanding because they are debt as well.

One reason why the stock markets worldwide came under pressure recently was because of the unwinding of the Clinton confidence factor. It is very likely the final unwinding. When there was a sudden massive liquidation of US dollars, receipt of which were moved into gold, it was an indication that the remaining hope that Bush would follow Clintonomics had finally disappeared. People simply threw in the towel, and the markets reacted worldwide to that realization.

The confidence in the US economy was also shaken worldwide. If George Bush remains in office for one term, we will probably be looking at an aggregate deficit of \$30 trillion by the year 2025—not including the interest. And there will be a gradual loss of confidence, as it is more widely understood that Bush has firmly returned us to the road of Reaganomics.

Part of the loss of confidence was also due to the Bush Administration renegeing on most of its economic campaign promises. When they announced that they had abandoned any effort to pay

down the national debt and they would not only attempt to redeem the previously mentioned worthless Treasury securities from the Social Security fund, but would again begin to raid the Social Security Trust Fund as a preemptory measure to hide the enormous fiscal budget deficits which lay just over the horizon—that was it.

It is important that Bush not stay in office more than one term—to at least try to limit the damage he’s going to do to the economy in the long run. The perception that there is no difference in economic strategy between the Clinton and Bush Regimes is not valid. On the day George Bush Senior left office, the nation had a 6.7 percent unemployment rate. On the day Clinton left office, the nation had a 3.8 percent unemployment rate.

On the day George Bush Senior left office, the US Treasury was bleeding red ink at a rate of \$2 billion per day. When Clinton left office, the nation’s Treasury was inuring black ink at the rate of nearly \$700 million a day. There is a difference.

But there is no confidence in BFAP (Bush Fantasyland Accounting Principles). GAAP wins every time.

Now Bush Junior is talking about the “Axis of Evil.”

What does it mean? Any time that a Bush attaches the word “Evil” to American foreign or military policy, watch out. Hundreds of billions of dollars of fiscal deficit spending are just around the corner . . .

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