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> "We can't do it all – not just because our reach constantly exceeds our grasp but because this time we have exhausted our savings, lost our competitive edge and squandered our educational heritage."
>
> --Bill Gross, PIMCO Bonds Managing Director—

The White House's Council of Economic Advisors just released its annual Economic Report of the President for 2006. The CEA's valiant attempt at a rosy picture of our economic conditions in fact highlighted what still needs to be done if economic prosperity is to continue for American consumers and workers.

It first tackled the $700 billion current account deficit—the amount of investment inflows from foreigners less outflow of U.S. investment. Yes, we are dependent on the kindness of foreign investments that now approach 6 percent of Gross Domestic Product, an all-time high, but not to worry. As long as we use it to promote future growth, foreigners will continue to invest here.

But can we use the foreign capital to foster future growth or must we earmark it for future liabilities that have been under-reserved, wonders Gross, longtime manager of the largest U.S. bond fund?

Educationally the "U.S. can create a workforce that will thrive in the fast-changing world economy," says the White House report. It is true that 9-yr old American students rank 3 or 4th among countries in math and science international tests, but they rank behind all developed countries by the 12th grade, according to the Council's own numbers.

There are problems with the CEA's picture of economic health, in other words. We are losing our competitive technological edge, to paraphrase Bill Gross. And we have stopped saving, which means very little set aside for retirement. In fact, the U.S. has had the lowest national saving rate among developed countries since 2002.

Nor is our health care system very healthy. Our national health care costs are soaring, now making up 16 percent of GDP (about $2 trillion per year). And costs will rise to 23 percent in 20 years, largely because the huge baby boomer population will have retired by then.

The White House Council recommends that we save more, get better educated, trade more freely, and maintain a "competitive" tax base (i.e., continue to lower tax rates). But how to do that, unless we improve our educational system and find a way to pay off our debts? Otherwise, foreigners will not continue to support our standard of living with their excess savings.

Gross is not very optimistic that the hard choices will be made, unless we are more realistic about our situation:

> "Instead, our solutions more likely will pursue an easier trail, characterized by currency devaluation, the inflating away of long-term pension liabilities, and the payment of rising healthcare expenses via higher personal and corporate taxes.

Investment markets in the United States will not ultimately prosper under such an increasingly odorous environment. It is only sensible, therefore, to diversify globally."