

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

## Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

---

*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2008-01/msg00004.html>

---

- *From:* Lysander <[lysander@xxxxxxxxxxxx](mailto:lysander@xxxxxxxxxxxx)>
  - *Date:* Tue, 1 Jan 2008 15:27:50 -0800 (PST)
- 

On Dec 29 2007, 3:02 am, RogerDodger <[n...@xxxxxxxxxxxx](mailto:n...@xxxxxxxxxxxx)> wrote:

On Sun, 23 Dec 2007 15:56:04 -0800 (PST), Lysander

<[lysan...@xxxxxxxxxxxx](mailto:lysan...@xxxxxxxxxxxx)> wrote:

On Dec 23, 12:47 pm, phil scott <[p...@xxxxxxxxxxxx](mailto:p...@xxxxxxxxxxxx)> wrote:

"... not the \$163 billion reported in the press, but \$2.386 trillion, with a "t". More than 14x more.

The cash in today is counted in income. The offsetting liability isn't recognized as an expense.

This is the problem with accuracy in accrual for the government. What is the liability? I am a very well trained economist and I can tell you that I could not give you a number I would feel comfortable with. The problem is this is that things like social security, welfare, and medicare are not like pensions in corporations. The government buys the medical care not just insurance where you may and I stress may be able to find a trend stationary series on the price of medical insurance. Social security and welfare are heavily tied to inflation. Welfare is tied to the business cycle. I have no way of even beginning to give you an accurate projection of welfare benefits 10 years from now. Essentially the TANF accrued a liability from now into an infinite time horizon. Welfare before that did as well. Social Security is a little easier because it works more like a pension plan and accounting could be similar to what corporations use on pensions. However, there is a big problem in that since Reagan SS has had COLAs. IRRC, Inflation is a unit root process. Without a stationary trend you can't predict how inflation will rise. So even if you treat it like a pension, the liability is still unknown. Lowering inflation rates,

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

like the 90's under Greenspan, will cause that liability to grow at slower rate. If we see 70's inflation that liability skyrockets. The liability is too closely tied to inflation that is very unpredictable over a long term to be estimated.

I respect Greenspan but I also know he is an economist and not an accountant. I just do not trust the numbers on SS or what liabilities that are tied to inflation and stretch over an infinite horizon might be.

The CEO then gives himself a bonus for the record profits he just generated. Besides being materially misleading of itself, the incentive effects are, well, bad.

I think any bunk accrual number you put for SS, medicare, or TANF would be worse than cash.

Not just for CEOs, but for politicians as well. Which is why governments other than the federal government now are generally being required to use their own version of accrual basis GAAP reporting.

(They hate it, and are being dragged kicking and screaming towards recognizing their pension and health plan retirement liabilities to their employees.

The problem with pensions and health plans they do not like is now having to report if the pension plan is over or under funded. This makes a huge change in liabilities and has made some recorded profits crash. It is not recognizing the liability that is really the problem it is the report of the liability versus the funding of the pension plan that is the problem. If the plan is properly funded or over funded it is not a problem.

Politicians do like to be able to recognize cash received today from health plan contributions as budget-boosting income they can spend, without recognizing the years of liabilities for health plan costs that come attached to it, which will materialize as cash obligations only long after they have moved on, on some other guy's watch .)

Maybe but do you seriously believe we can put accurate numbers on how

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

much money will be paid out in SS, Medicare, and TANF over the next 50 years? That means predicting inflation properly for 50 years, predicting all the business cycles over the next 50 years, and predicting health care expenditures for 50 years. Von Hayek's acceptance speech for his Nobel Prize is excellent in explaining why simple math like accountants use falls apart in predicting long term complex issues. These are not the more simple liabilities of pensions or medical insurance costs. These are liabilities with a lot of variables that are very hard to predict. Unfortunately, many of the series that would be necessary to give good predictions are random walk series. Meaning the time series can not predict a trend.

Ah, well using projections that are essentially accrual methods, the one-year federal deficit for 2007 was, oh, totalling up the numbers, looks like \$2.66 trillion, yes with a "t".

Bunk projections give bunk numbers. Ironically, matching in accounting can cause the company to have huge profits while cash flows is a big negative and the company is going out of business because it can't pay its bills. Under accrual or even cash I can purchase a billion dollars of inventory and still make huge profits if it sits unused. I have 1 billion dollars go out and I get 10 million in and I may be accounting have 9 million in profits. How because the inventory not used is not expensed and not part of goods sold. I started with 1 billion in cash I have 9 million in cash but the accounts say I made 9 million profit. When my cash decreased by \$991,000,000. Despite the big profits I am out of business. Maybe it shows 2 billion because I have a contract for to use the inventory but I will not receive the cash until 2 years from now. I still can't pay my bills but the accounts say I am making huge profits because I have earned money and accrued the cost. All the ARs in the world won't pay the bills if the cash isn't there.

It's tricky using accrual accounting for the federal gov't, because the only liabilities that are recognized using accrual accounting are legally enforceable ones — and the federal government can't be legally forced to do much, since Congress can always change the law to not do what it doesn't want to. That's always been the rationale for not applying accrual accounting to the federal gov't.

Most entitlements are linked to many variables to accurately estimate the liability. If Greenspan estimated what it would be under accrual he had to assume a certain inflation rate and make assumptions about the business which may be very wrong.

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

However, workers who pay Social Security and Medicare taxes certainly believe they've accrued the benefits that the benefit formulas promise them as attaching to the taxes they've paid, even though the federal gov't includes only the tax receipts in income, without recognizing the offsetting liability for their future benefits on its books (even in its own version of accrual accounting).

They are not only attached to how much you have paid but inflation as well. Most pension plans don't do this. It pays you \$X per period if inflation means \$X can't buy a pack of chewing gum too bad. Many people saw their pensions go to worthless status in the high inflation of the 1970's.

That counts for most of the \$2.6 trillion. But there are also military and federal civilian retirement obligations, and a lot of other similar things in there.

Which is why I am not sure if this really accrual differences in the accounting sense. Greenspan was much too good of an economist to believe they could put SS or even TANF on GAAP accrual. However, Reich did raid the retirement funds to make the budget "balance".

Enron never committed a material misrepresentation anywhere near as big and brazen as the federal gov't's receiving SS tax receipts and including them in income today, while not recognizing expected decades of future benefit liabilities to the tune of \$ 4 trillion, present value — because technically they have not been finally "earned", since the gov't can always change the law to reduce them.

How do you get the 4 trillion number. What assumptions are made about inflation? What interest rate is used?

In private sector accounting, similar issues of uncertainty regarding future liabilities arise all the time. The required action is a "best estimate", that may change year to year, sometimes by a lot, but still it is a best estimate. The federal gov't's action is to estimate \$0.

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

The corporation projections are not for benefits that adjust to inflation nor benefits that are paid when the economy is down.

The Medicare issues are much bigger dollar-wise. People pay Medicare taxes that earn benefits too...

Is medicare's accounting different from ETNA or a big medical insurance firm?

Only on a cash accounting basis.

A private business or insurance company that receives a payment from an individual that legally requires it to in exchange pay a pension or annuity in future years is legally required to include that accrued liability on its books as a charge against income. The liability's discounted present value offsets the income of the payment received on the income statement.

This is not exactly right and how pensions are accounted for has changed this year. I am not going to comment because I only know a little about the changes. I do recall an intermediate accounting professor complaining he had to photocopy the revised chapter on pensions because the book was now all wrong. The recognition of pensions has changed drastically just recently for corporations and in some cases has caused severe changes in recorded profits. However, it is not just accounting for the projected liability today and expensing it. It is very complicated how it is accounted for. You have a lot of stuff in addition to service cost which is what is to be paid out in the near future. I would have to look up it to explain it and it would take more time than I have hear to do it. Even with corporations accounting for pensions is not as simple as you think.

Medicare of course is the monster. The Medicare trust fund is near exhausted, so there aren't even any bonds for it counted in the national debt. But the present value liability for it is in the tens of trillions of dollars.

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)

There is no medicare trust fund. Like social security all the money has been dumped into FICA for years. The "trust fund" is government issued bonds that have to be paid out of FICA.

Projecting the full implicit debt increases the national debt to >\$50 trillion net, present value, over future projected income. (yikes!)

Garbage in. Garbage out.

Thus the \$51 trillion is the amount the US gov't would need to obtain today and save somehow (in a Swiss bank account or somewhere) to pay its future obligations.

No the present value is the price that someone would buy the bonds for..

No, \$51 trillion is the amount the government would have to invest at the bond rate today to fund its \$51 trillion of net liabilities reported by GAO.

You don't understand economics or finance here. That is the same as what it take to buy the bonds today. If someone else could get the money and sock it away at the interest rate used in present value they would have the amount of the deficit in however many years the time period is. If the present value of the debt is \$51 trillion, which I am not saying it is, then \$51 trillion would be enough to buy all the bonds back, retire the debt.

.

Re: The actual US deficit..... (into the trillions last year, entirely fatal, US GAO)