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

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- *From*: RogerDodger <none@xxxxxxxxxxxx>
- *Date*: Wed, 02 Jan 2008 16:53:32 −0500

On Tue, 1 Jan 2008 15:27:50 −0800 (PST), Lysander
<lysander@xxxxxxxxxxx> wrote:

> On Dec 29 2007, 3:02 am, RogerDodger <n...@xxxxxxxxxxxx> wrote:
>
>> On Sun, 23 Dec 2007 15:56:04 −0800 (PST), Lysander
>>
>> <lysan...@xxxxxxxxxxx> wrote:
>>
>>> On Dec 23, 12:47 pm, phil scott <p...@xxxxxxxxxxxxx>
>>> 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.

So, you feel more comfortable with $0?

The cash flow cost of paying down these obligations will require an
increase in general revenue of six points of GDP by 2030 (on current
law that requires an income tax increase across the board, both
individuals an businesses, of 55%). That's just of for Social Security
and Medicare.

You know, 2030 is only 23 years away −− well less than the length of the typical home mortgage, well within the working careers of most people working today −− and projecting liabilities that big that are so close in time really is not so difficult.

But you believe that because there is some modest measure of uncertaintly in its exact size, a liability that will cost about 6 points of GDP annually (and rising) that soon should be counted as $0?

To avoid being misleading???

> The problem is this is that things like social security, welfare, and medicare are not like pensions in corporations.

??

The SS retirement benefit, which is 85% of Social Security,*is* a defined benefit pension. Nothing else.

The liability numbers for it are as rock solid as for any other defined benefit pension plan, GM's or IBM's or anyone else's.

The actuaries of SS, Medicare, the military pension system and the rest caclulate their accrued liabilities to retirees and future retirees as accurately as do the actuaries of any private sector firm that owes retiree pensions and retireee health benefits. The liabilities are reported in the annual Trustees Reports of SS, Medicare, etc.

Yet while private firms are required to report these liablities on the books with their present value charged against income, the government ignores them.

I've met a lot of people in my life who at first believed such numbers for the gov't couldn't possibly be true because they are so large −− but upon reading them in the govt's own reports, none ever said they believed the govt was right to *not* report them in its financials. Most were appalled at the govt for not doing so.

Really, you're the first to endorese the practice.

Some people who are familiar with this subject actually believe the government has a *higher duty*, not a lower one, compared ot private businesses, to report accurate financials.

After all, what is the purpose of financial statements? To report an accurate picture of the financial status of an entity to its stakeholders. So they can gauge its fiscal future, and their safety in relying upon it.

Of course, the stakeholders of a private business all have *voluntary* relationships with it −− investors can sell out, employees can quit, creditors and contract holder can terminate their relationships, etc. −− if the financial status of the entity heads south so as to harm them. There's no kind of *public trust* involved in such businesses.

Still, even so, the law requires that private sector financials give them a picture of the entity's likely fiscal future without "material misrepresention" so they can be prepared for it.

OTOH, the stakeholders of the federal govt −− voters, SS tax payees, Medicare payees, etc, −− have *no choice* in the relationship. And many who are up on this issue think this should obligate the govt to a *higher* standard of reporting to the public on whose behalf they are supposed to act. .

Yet what we get from all sitting govt officials (outside of GAO), and from both political parties is: "OK, a 55% and rising income tax hike OR massive retiree benefits cuts OR an equivalent combination of both is coming by 2030, with steadily more later. Shhhh, don't tell the voters, that would be awkward for us!"

Do you really think this is right??

If so, don't you think Lay and Fastow & Co. should have been allowed to keep all those off−the−book liabilites off the books, because revealing same was so awkard to them?

It wasn't like those guys had been given any kind of ** public trust** to many millions of people top political leaders have.

> ?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...

Who's talking about welfare?

We're not talking about government programs that are budgeted annually, like Defense Dept or Agriculture Dept or Whatever Dept.

We are talking about *accrued liabilities* that exist under GAAP accounting rules that apply to everyone except the federal govt.

<snip>

> I respect Greenspan but I also know he is an economist and not an accountant.

The people at GAO *are* accountants and prepared these numbers for you, and him before you.

> 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.

What "infinite" time horizon? When somebody props up the "infinite time horizon" straw man to knock down, you know their argument is backed up against their own goal line. ;−)

Is 2030 an infinite number of years from now, when we are projecting the cash flow cost of these liabilities coming due, year−by−year?

You know Monte Carlo analysis, right?

Do you really think the actuaries and trustees of SS, Medicare, etc., are so dim that they wouldn't give their range of projections considered for the inputs in their calculations −− inflation, GDP growth, real cost growth, etc. −− and run Monte Carlos with them, and give the full range of results in their reports?

When they do and the result is ... "lowest cost: trillions, to highest cost: lots of trillions", do you really think the least misleading number to report is $0. ???

> > 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.

Why would the actuaries of SS and Medicare produce "bunk" numbers?

If officials in our government actually would do such a thing, why, they shouldn't be trusted to run our benefit programs, some would think! ;−)

Anyway, you are again saying that when a liability is unquestionably in the trillions of dollars, an estimate of it...

a) that is annually updated using best actuarial principles that give a liability in the trillions of dollars, is "bunk".

b) of $0, is not bunk.

How odd.

> > 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....

First of all, that's just wrong.

When you don't even know that accural accounting is required by law for businesses with income over $1 mil, and deny it is so, you should pehaps show some care in giving lectures about accounting.

As I said, many governments are kicking and screaming against the new accrual rules for governmental GAAP accounting that make them newly recognize retireee health care liabilities on the books for the first time because it sharply reduces their net income and greatly increases their reported governmental liabilities PERIOD.

They then have to raise taxes/cut spending to balance their budgets, as often required by state constitutions, which they don't like -- and voters also ask them "Where the hell did all this debt we have to cover suddenly come from??" PERIOD.

Secondly, how can you possibly say in the same sentence "a huge change in liabilitiies" affects recorded profits (govenments have "profits"?, sloppy, sloppy, sloppy) but recognizing liabilities is not the problem??? Hello???

Of course it is recognizing the liability that creates the problem.

An entity using cash accounting like the federal govt *doesn't* recognize any liaiblity in the future, hence it has no reported pension liability to fund and no overfunding or underfunding issue at all.

This is what you are recommending as superior?

> 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.

Your cash basis books say you don't have the liability.

What's the proper amount to fund on your books a liability that's not on them?

>> 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 much money will paid out in SS, medicare, and TANF over the next 50 years? That means predicting inflation properly for 50 years...

~ Sigh ~

So you'd rather ignore the work of all the actuaries, economists, accountants, etc. at the Social Security Administration, Medicare, GAO, etc., because their estimiate of $50 trillion might be say $5 trillion off. Maybe $10 trillion off.

You'd rather use $0 as a number −− because that's only going to be $40 trillion off, or $45 trillion off ... or maybe $60 trillion off. (The SSA actuaries et. al. could be off on the *low side* you know.)

Thus we have a new GAAP accounting principle: when a BIG accrued liability has a measure of uncertainly about it, report it as $0!

Because we mustn't be innaccruate! ;−)

We'll call it "The Ken Lay Rule".

But we'll only apply it to governments, of course. Private corporations will remain subject to normal GAAP "most accurate to the real dollar value" estimation rules, because shareholders and creditors must be protected from financial mal−reporting.

We only want to screw expose voters and those dependent on goverment who wll be placed in jeopardy when the big fiscal crunch starts hitting in the 2020s. No warning for them!

Because governments and politicians certainly deserve to be held to a much *lower* standard of accounting than private businesses, right?

BTW, did you know Standard & Poors projects that on current law the credit rating of the US will fall from AAA to "junk" in the 10 years from 2017 to 2027?

http://www2.standardandpoors.com/portal/site/sp/en/eu/page.article/2,1,8,0,1112292523641.html

See Chart 4.

Hey, 2027 ... that ain't "infinity" from now!

But sshhhh... don't tell anybody!!

PS:

> > Enron never commited a material misrepresentation anywhere near as big and brazen as the federal govt'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?

Oh, for cryin' out loud ... if you really are such a well−trained economist, you ought to be able to read primary documents.

They ain't secret.

If you aren't so well trained as to know what they are, the previously linked to "The Fiscal Year 2007 Financial Report of the United States Government" ...
http://www.gao.gov/financial/fy2007financialreport.html
.... gives the summary information and notes to the primary sources.

BTW, why'd you cut the link?

Challenging information while cutting the link to it is very bad usenet form.

Not that much good usenet form exists any more, but just the same...

PPS:

> > 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 govt's action is to estimate $0.

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

Corporate accrued liabilities *sure do* adjust to the effects of inflation, interest rates, the economy's ups and downs and resulting effects, etc., when they affect the true cost of a liability. For many regular ongiong business liabilities as well as corporate retiree liabilities.

You really don't know much about this subject.

But being that before my last post you didn't even know they had to use this kind of accounting, why should you?

Corporate accrual accounting is quite complex. Don't try to figure it out for yourself from first principles. That's how all the dumbass Georgists operate.

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