

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

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- *From:* Lysander <[lysander@xxxxxxxxxxxx](mailto:lysander@xxxxxxxxxxxx)>
  - *Date:* Sat, 5 Jan 2008 21:52:39 -0800 (PST)
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On Jan 2, 3:53 pm, RogerDodger <[n...@xxxxxxxxxxxx](mailto:n...@xxxxxxxxxxxx)> wrote:

On Tue, 1 Jan 2008 15:27:50 -0800 (PST), Lysander

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

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

So, you feel more comfortable with \$0?

0 is more likely to be closer to accurate than the BS numbers you are spouting.

The cash flow cost of paying down these obligations

Do we want to pay them down? The Federal debt is not like personal debt. The government can not go bankrupt. Is the cost of paying down the debt worth the benefit? How much debt is retired due to bonds maturing that in Fed possession?

will require an increase in general revenue of six points of GDP by 2030s?

6 points? Do you mean 6%. What assumptions are being made as to the

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growth of GDP over the next 22 years? You have the same problem the peak oilers have. You are trying to apply simple math to a complex situation that has many variables. It didn't work for Malthus and it will not work in this case either.

(on current law that requires an income tax increase across the board, both individuals and businesses, of 55%). That's just of for Social Security and Medicare.

Again what inflation rate and what growth rate are being assumed here. I am little easier about assuming constant GDP growth. Growth will raise revenue without raising taxes. I am not convinced any assumption about inflation is right. The series is a random walk. Seignorage could be a big issue. Inflation raises tax revenues as well. Are their any assumptions about GDP growth or inflation in these numbers. If not it is worse than Malthus.

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.

They are when they are tied to inflation. Fixed interest and fixed payments are not tied to inflation. What the deficit may look in the future depends entirely on how the economy grows and if the business looks about the same as the past few decades. Growth theorist know well that it is possible governments can change growth rates for better or worse.

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

Your assumption about the percentage of GDP involves an assumption of GDP growth. I would like to know what that assumption is and if the numbers are even close to right. Just because it is a government number does not mean it is right. Government agencies issue hedonic number on the value of life. There is a big difference in the numbers depending on the agency.

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To avoid being misleading???

Yes. Your numbers may be just as misleading as 0. I realize the conservatism principle exist in accounting but as an economist, I am not convinced over estimating liabilities is any better than underestimating them.

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

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

You snipped all of why it is different. Corporate defined benefit programs are not tied to inflation. SS is tied to inflation. Corporate medical benefits predictions are predictions on insurance cost. Medicare is insurance.

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.

These do not have COLAs and they are not rock solid. Firms are costly adding adjustments to service cost when conditions change. I do not believe you know how pensions are accounted for today.

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.

Yeah if you say so. Sorry but inflation is a unit root process. SS payments are tied to inflation. You can not predict a unit root process.

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

No their present value of the liability is not counted against income. It is MUCH more complex than this. The present value of service cost is just a beginning.

[http://www.actuary.org/pdf/pension/fundamentals\\_0704.pdf](http://www.actuary.org/pdf/pension/fundamentals_0704.pdf)

Pension expense is counted against income and IT IS NOT THE PRESENT VALUE OF THE LIABILITY. Pension expense is a very complex process that involves calculating service cost and service years. Firms subtract gains from the pension fund for the service cost, they add losses. It is a multi step calculation to get to pension expense. It is not simply the present value of the liability.

<http://www.nysscpa.org/cpajournal/2006/1106/essentials/p22.htm>

"Pension Expense

Accounting for pension plans requires the measurement of pension cost and then the allocation of such cost to appropriate time periods. The determination of pension cost is a complicated task because it is calculated by netting five factors:

- \* Service cost;
- \* Interest on the projected benefit obligation;
- \* Expected return on plan assets;
- \* Amortization of prior service cost; and
- \* Effects of gains and losses.

The income statement reports the net amount as pension expense. Each of the components is disclosed in the footnotes accompanying the financial statements."

Furthermore in pension expense it is ONLY EARNED PENSION EXPENSE THAT IS COUNTED not future expenses.

I also have more than principles level knowledge of accounting. Due to changes in my life plans I never sat for the CPA exam but have most of the coursework needed for it.

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