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## FEDERAL ACCOUNTING STANDARDS

### ADVISORY BOARD MEETING

FEBRUARY 25, 2009

441 G Street, NW, Room 7C13

#### Speakers:

Jagadeesh Gokhale, Cato Institute  
David M. Walker, Peter G. Peterson Foundation  
James K. Galbraith, University of Texas  
Warren Mosler, University of Cambridge  
Stephen C. Goss, Chief Actuary, Social Security Administration  
Joseph J. DioGuardi, Truth in Government  
Victoria Vetter, Social Security Administration OIG  
Edward J. Mazur, Association of Government Accountants FMSB  
Eric S. Berman, Association of Government Accountants FMSB  
Sheila A. Weinberg, Institute for Truth in Accounting  
Representative Jim Cooper, D-TN, House of Representatives

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## P R O C E E D I N G S

[8:10 a.m.]

MR. ALLEN: Okay. Well, a couple of things.

Obviously we wanted to deal with any administrative matters, and I guess most important is an official recognition of Nancy, and welcome. We look forward to it. You've got big shoes to fill, but we won't expect you to wear that size of a shoe.

[Laughter.]

MR. ALLEN: So, welcome.

We have a number of articles, clipping articles that are of interest and also potentially impact on what we'll be talking about. But I'd like to sort of defer any comments on those, particularly those that relate to projects we will be talking about until tomorrow when we actually start talking about that, unless somebody has some comment they want to make prior to our public hearing.

We have Jeannette and Regena who are here. We want to officially recognize sort of the brains behind the people who are normally there, I guess.

[Laughter, simultaneous conversations.]

MR. ALLEN: Is there anything else we need to cover or should we move into -- the agenda's very full

1 tomorrow, so we tried to get one of the quick projects on.  
2 Let me have you come up to the table for Tab H and have you  
3 refer to that. Then we'll go into public hearing

4 Meanwhile, while they're sitting here, I'd like  
5 you to think about as we start the public hearing a way  
6 that we can make sure that each of us participate in asking  
7 questions to the participants. I mean, the main reason we  
8 have public hearing is to understand why they believe the  
9 way they do. So I don't know whether we want to start on  
10 one side of the room for one person and the other side.  
11 But my expectation is that most of us, or all of us, will  
12 be asking to each of our participants if we have time. So  
13 be thinking about that.

14 We'll be assigning you a blind number and telling  
15 you whether you're number 1 or 10 [indiscernible]. Okay,  
16 go ahead.

17 MR. FARELL: Tom, I don't think it's useful to  
18 force people to go around the table and ask questions.

19 MR. ALLEN: I know. I'm being somewhat  
20 facetious, but I guess what I'm saying is, I want us each  
21 to be prepared, and I want us to sort of share that  
22 opportunity that we have, don't let me ask questions all  
23 alone. Sort of the expectation of, it always seems like

1       who asks the first question is kind of a challenge. Maybe  
2       not with this group. At GASB actually we would assign this  
3       half of the table or that half of the table would start the  
4       questions. So I guess I'm just [indiscernible].

5               All right, [indiscernible] who's leading these  
6       discussions.

7               MR. SIMMS: All right. Tab H is the next item on  
8       the agenda. This is the GAAP hierarchy project. We  
9       received comments on our exposure draft and the respondents  
10      were in general agreement with the proposals and the ED.  
11      And I wanted to suggest that we move forward with preparing  
12      a draft standard, rather than having a public hearing, so I  
13      wanted to make sure that the members are comfortable with  
14      that approach first.

15              MR. ALLEN: Does anyone object to that? It  
16      seemed like a pretty favorable response, you know. At  
17      least the written response.

18              MR. SIMMS: Okay.

19              MR. ALLEN: Okay.

20              MR. SIMMS: And I also included a draft standard  
21      in there for you to look at and see some things that may,  
22      in response to the comments that we received. I wanted to  
23      see if I can get some general thoughts on the ED at this

1 point and I can take those comments back and prepare the  
2 draft for the next meeting.

3 MR. STEINBERG: Yes, I sent Ross an email last  
4 night, I'm sorry, [indiscernible] had me out in Colorado  
5 doing other things last week. But there's one, of all of  
6 them, there's one I think that's fairly significant. And  
7 that is, I remember over the years that a lot of people  
8 would come up and say, well, OMB requires this, OMB  
9 requires that, and that's GAAP. And I had to say to them,  
10 no, it's not GAAP, GAAP is set by FASAB. And they'd say,  
11 well, how do we not follow OMB? And I'd say, well, that's  
12 what you call a RSI, required supplementary information.

13 I seem to remember that at one time we did have  
14 that referred to in the standards. That organizations such  
15 as Congress and OMB and others could set requirements. And  
16 we've got to say, I think explicitly in the standard, that  
17 that is not GAAP, that would be handled as RSI. We would  
18 want to make that conclusion.

19 Ross pointed out to me that he thought he had  
20 taken care of that with a comment in the basis of  
21 conclusions, beginning at paragraph 14. Paragraph 8 notes  
22 that other accounting literature includes pronouncements of  
23 other standard-setting bodies and regulatory agencies. I

1 am not sure that that is clear. And in fact, I don't  
2 people think OMB is necessarily a regulatory agency as much  
3 as it is speaking on behalf of the President and saying,  
4 this is what you shall report.

5 So I would really like to see somewhere in the  
6 standard this identification that Congress, which they can,  
7 they do require certain reporting, and OMB and maybe even  
8 Treasury can require things to be in a financial report  
9 that is not GAAP, because it is not going to be used by and  
10 approved by the standard-setting body. And that it is RSI.

11 MR. ALLEN: That is a real challenge issue, I  
12 guess, in sort of understanding the history of this  
13 organization. We probably exist only because that  
14 challenge of different Federal agencies and the  
15 Constitutional authority that they have to set reporting  
16 standards results in us being GAAP. That does not mean  
17 those agencies view their role as non-GAAP. So we have an  
18 issue that we need to probably make sure that we, we almost  
19 have a parallel universe. We set GAAP and they have the  
20 legal authority to set form and content. And that  
21 challenge is a very real challenge.

22 MR. STEINBERG: It is. But the last time we had  
23 this discussion, because I remember seeing it maybe as an

1 earlier draft of this in some other document, Danny didn't  
2 have any problem with that. He read --

3 MR. SIMMS: Isn't that concept statement that  
4 when it's close enough --

5 MS. PAYNE: [indiscernible] called where  
6 [indiscernible], or what word I [indiscernible].

7 MR. STEINBERG: Maybe that's it. It's in one of  
8 the last -- it's in the OAI. That's where it is.

9 MS. PAYNE: OAI.

10 MS. KEARNY: And Danny was okay with it, that the  
11 belief that OMB would be setting RSI. I think there might  
12 be a little bit of concern if we preclude any OMB guidance  
13 from being GAAP, specifically for the level D where we have  
14 a prevalent practice that is being written up in OMB  
15 guidance. That would be if there's nothing in the FASAB  
16 guidance that addresses a specific issue, we've got a  
17 practice in the Government, OMB is writing it up in their  
18 circulars, we wouldn't want the thought to be that that  
19 would not be GAAP.

20 MR. SIMMS: Well, but I think if something's in  
21 level D, even though it's in level D, an agency doesn't  
22 have to follow it. In other words, if they see things in  
23 A, B, C and so forth.



1 MS. KEARNY: Certainly. But if it isn't a level  
2 D, we would want it to be recognized as GAAP, if it's not  
3 [indiscernible] A through [indiscernible].

4 MR. SIMMS: And I think this is where we run into  
5 this conundrum, that --

6 MR. ALLEN: Absolutely, this is where --  
7 [Simultaneous conversations.]

8 MR. ALLEN: -- both sides of the challenge right  
9 here.

10 MR. SIMMS: OMB cannot set GAAP. They delegated  
11 that to FASAB. And, but we have no problem in saying that  
12 OMB can require whatever they want. The thing is, when  
13 they require it, it's RSI.

14 MALE SPEAKER: Hm-hmm [negative]. OAI.

15 MS. PAYNE: It's actually OAI.

16 MALE SPEAKER: OAI.

17 [Simultaneous conversations.]

18 MALE SPEAKER: OMB can't set RSI.

19 MALE SPEAKER: It's in Paragraph 73(f) in the  
20 concept table where we say that there can be laws,  
21 administrative directives that require the information on  
22 the part of the auditor. But it would be other company --

23 MS. FRANZEL: GAO, and I think we're kind of on

1 the same page as OMB, we've been interpreting the OMB  
2 guidance as level D guidance, and in audit reports, we  
3 state that financial statements have been prepared in  
4 accordance with GAAP and OMB guidance, and we cite the  
5 circular. So we've really been interpreting it here as  
6 Level D guidance. And it does, you know, Level D certainly  
7 seems to include that. Implementation guides published by  
8 the FASAB staff as well as practices that are widely  
9 recognized and prevalent in the Federal Government.

10 We certainly think that the guidance coming out  
11 from OMB for preparing financial statements and related  
12 disclosures, we've considered it level D at this point, and  
13 the standards have been somewhat silent on that. We've  
14 been interpreting it that way.

15 MR. ALLEN: But I think Hal's assertion that  
16 FASAB sets GAAP is true and isn't inconsistent with what  
17 you guys are saying. In other words, you're saying, where  
18 there is a void not addressed.

19 MS. FRANZEL: That's right. And I think Hal is  
20 certainly referring to the higher levels, very much so,  
21 FASAB is required to set that and responsible for that.  
22 But when you get down to level D, it seems to improve some  
23 of this other prevalent practice, which certainly the OMB

1 circular provides.

2 MR. JACKSON: Even if it's level D, it's pretty,  
3 what shall I say, vague, just, we agree that level D is the  
4 place where it's covered. I'm just wondering whether we  
5 should say stuff that, we're otherwise required to OMB or  
6 Congress or something like that.

7 MR. ALLEN: What is it going to [indiscernible]?

8 MR. JACKSON: Level D would only apply if it's  
9 not addressed in Level A, B or C. So it's not as if OMB,  
10 or any of them, anybody, I don't want to just pick on OMB  
11 or GAO or anybody else. But if it wasn't established, if  
12 they're dealing with something that hasn't been established  
13 because there's an absence of literature on it, let's say,  
14 then it falls into level D. Just because some Federal  
15 agency or Congressional body decides to impose something on  
16 you does not make it subject to this hierarchy. It could  
17 be OAI, in fact, it would be OAI, arguably.

18 So if OMB decided to prescribe reporting,  
19 accounting in some way, that was not addressed in the  
20 accounting literature at all, then I would say D kicks in.  
21 If OMB prescribes something that's address in the hierarchy  
22 otherwise, then it's OAI, end of case. I mean --

23 FEMALE SPEAKER: We would agree with that.

1 [Simultaneous conversations.]

2 MR. JACKSON: Even so, if OMB prescribes  
3 something and the auditors want to report on it, because  
4 OMB says you'll report on this, well, on the one hand, the  
5 auditors will report as to whether the financial statements  
6 are fairly stated in accordance with GAAP. And also,  
7 report on this other information in the manner prescribed  
8 by OMB.

9 MR. ALLEN: Isn't part of the challenge that  
10 Federal agencies are comfortable with what you just stated,  
11 but are concerned that if someone in this document we try  
12 to move out of level D this guidance, I think that's part  
13 of their concern, is not to argue about who has higher  
14 priority. But if you try to move it to a level below level  
15 D GAAP, such as a newspaper article or something like that.  
16 And so, that's the issue, isn't it?

17 MS. FRANZEL: That's correct.

18 MR. ALLEN: I think I would support being  
19 sensitive to their concerns.

20 MR. JACKSON: I am. I just think we need to make  
21 sure it gets characterized properly.

22 MR. ALLEN: Good point. Thanks, Hal.

23 MR. STEINBERG: I don't know that we could make

1 any adjustment to [indiscernible].

2 Mr. ALLEN: Well, I think at this point what  
3 we're trying to do is identify issues that the staff needs  
4 to work on and resolve as they get back to us.

5 Can I just add one, Ross, in terms of under your  
6 broad issue two, entities following FASB, I'm comfortable  
7 with the notion that we don't make anybody change right now  
8 as part of this project. But at some point, before we're  
9 done with this project, I would like to have a discussion  
10 about when we may plan to address this issue of do you set  
11 criteria or not, and what project would that be part of, or  
12 is that part of the reporting project, well, it's not  
13 really reporting into the project.

14 But I don't want to it to die. Obviously I feel  
15 passionate about it, from the work done earlier, that  
16 there's legitimate reasons for some and seems to not be for  
17 others doing them that way.

18 MR. SCHUMACHER: I had a similar point, Tom.  
19 When a new entity comes on and a decision has to be made as  
20 to whether to use FASAD or FASB, what's the process for  
21 doing that, and who makes that decision as to whether  
22 there's criteria in the MAP? I'm not so sure it's clear in  
23 the standards. Whether that's the auditors and the entity,

1       whether it's OMB, whether it's, I don't think it probably  
2       should come back to us. But it's just not clear to me in  
3       the standard what process they go through to make that  
4       determination and where that gets challenged.

5               MR. ALLEN: Okay. That's the other side of, mine  
6       was, for those who have already been doing it, and the  
7       standard's pretty silent on those, other than just continue  
8       doing whatever you're doing. The standard actually talks  
9       about for new entities. I think [indiscernible].

10              MR. SCHUMACHER: It does list criteria.

11              MR. ALLEN: But just now who decides --

12              MR. SCHUMACHER: How does that process take  
13       place, should we address that or not [indiscernible].

14              Mr. ALLEN: All right, that's something we  
15       probably ought to consider, in coming back to us, why we  
16       should or why we shouldn't address that in more detail  
17       within our framework.

18              MR. SIMMS: I was going to say, and I think one  
19       of the letters asks the question who decides, who makes the  
20       decision. I was wondering about that.

21              MR. ALLEN: Other issues that we would like the  
22       staff to address? I guess there are three broader question  
23       issues, do we want to see if there's general support for

1       those? I'm not sure how far you want to -- I don't mean to  
2       cut you off. We've got a few more minutes. How much  
3       further do you want to get into the broad issues that  
4       you've outlined here?

5               MR. SIMMS: I think we've got [indiscernible].

6               MR. ALLEN: So you want to turn to issue one  
7       [indiscernible]?

8               MR. SIMMS: Issue one dealt with those who sought  
9       a little bit more clarification on the GAAP hierarchy  
10      itself and what role other leadership plays. Some had  
11      questions on what, is there a separate distinction between  
12      the two, between the GAAP hierarchy and other literature?  
13      Maybe we can separate it, paragraphs 5(a) through (b), from  
14      other literature to make sure [indiscernible] realize that  
15      that's where the board expects the practice to be governed.  
16      And we also had questions about the role of OMB and  
17      Treasury and GAO. That's something that we just talked  
18      about, we wanted clarification on those requirements, where  
19      they fit within the hierarchy itself.

20              So we included in the basis of conclusion some  
21      explanation of the GAAP hierarchy and what other literature  
22      is intended to, how it's intended to be used, and the  
23      process they should follow. So that was basically the

1 broad issue one, is just to clarify the hierarchy and where  
2 it can be used and where organizations like Treasury, OMB  
3 and GAO, where they would fall in the hierarchy.

4 MR. ALLEN: I think that -- go ahead, Jeannette.

5 MS. FRANZEL: We do have a concern with singling  
6 out in paragraph 13, really the legislative branch and  
7 judicial branch agencies, when in fact the same should be  
8 applied to all. So rather than singling those out in  
9 paragraph 13, we're suggesting maybe adding a footnote to  
10 paragraph 4 saying that Federal entities that meet the  
11 criteria would include legislative, judicial and executive  
12 branch. It seems like in paragraph 13, you're somehow  
13 singling out legislative branch and judicial branch  
14 entities, whereas they should have all the same  
15 considerations as executive branch, you should mention them  
16 too in the appropriate place.

17 Mr. ALLEN: Is everyone comfortable with that?

18 [Simultaneous conversations.]

19 MR. JACKSON: Essentially, what you're saying,  
20 Jeannette, is that, actually paragraph 4 because you made  
21 reference back to it, paragraph 4 actually says that anyway  
22 when you think about it.

23 MS. FRANZEL: Yes, so maybe you could just get



1       rid of that.

2               MR. JACKSON: You don't even have to say it.

3               MS. FRANZEL: Exactly. Get rid of that reference  
4       in 13. Otherwise, it looks like you might be treating  
5       legislative branch entities differently.

6               MS. FLEETWOOD: I think the reason we thought  
7       that was important is because they are not, legislative and  
8       judicial branch aren't following the same responsibilities  
9       in terms of financial reporting that others do, and that we  
10      wanted to make sure they realized that it applied to them  
11      as well. Because they don't, you know, if they're not on  
12      the CFO Act, they don't have to follow the same reporting  
13      requirements. We were concerned that they might miss it.

14              MS. FRANZEL: Then maybe a footnote to 4,  
15      specifying the three branches.

16              MR. JACKSON: If you took the underlined, or the  
17      redlined version of paragraph 13, if you take the  
18      underlined part there and make it a footnote to paragraph  
19      4, you've knocked a hole in that barrel.

20              MS. FRANZEL: Yes, and in fact, the legislative  
21      branch entities are considering FASAB as they come online  
22      and start doing their financials. But I think, yes, if  
23      that is a concern, a footnote listing all three branches

1 would probably be appropriate. You do have some entities  
2 in the legislative branch, like the Senate restaurants, for  
3 instance, you know, they're a little bit different than  
4 Library of Congress. So when you go through this  
5 consideration, it doesn't necessary come down to FASAB for  
6 them.

7 MR. ALLEN: How about taking on one more issue?

8 MR. SIMMS: Okay, the next issue dealt with those  
9 entities that are following FASB standards right now. We  
10 said that they can continue to do so, but some respondents  
11 thought, well, they should go through some criteria first  
12 instead of just simply grandfathering it in. Our point was  
13 that the board didn't want to cause any changes in  
14 practice, just because we were relocating the hierarchy  
15 from the auditing standards to the accounting standards.  
16 So if we started down that path, we would be possibly  
17 making some entities change their practice. So we didn't  
18 propose any changes to the standards before that. So  
19 that's the issue to take up in the next project.

20 MR. ALLEN: I guess all I was asking is, it might  
21 be good for us to at least discuss that enough to know,  
22 what is the next project that would be considered or could  
23 be considered. Because, is it a separate project, is it

1 one that we have already somehow got on our agenda, and  
2 that would be helpful, if we just tell people, you know, in  
3 essence you're saying what we may consider in a future  
4 project isn't really answering the concerns that were  
5 raised by a board member who's [indiscernible] response.

6 MR. SIMMS: Yes, right, and we do have a project  
7 on the agenda, I mean, ongoing currently dealing with those  
8 entities following FASB.

9 MR. ALLEN: We had a discussion last board  
10 meeting where the question was asked of the board, do you  
11 or don't you believe that is something we need to do. So  
12 you're saying that you have it, it's not on our agenda per  
13 se. So, well, let's go on. But I think before this is  
14 issued we ought to be able to better answer when we would  
15 plan to address that issue.

16 MR. SIMMS: Okay.

17 MS. KEARNY: Would it be possible maybe to  
18 clarify that? It seems to me that when I was reading the  
19 standard, although I think it was in the questions, it  
20 alluded to that we were going to address this in a follow-  
21 on project, maybe somehow we could, I think we've done it  
22 in other standards where we footnote that this will be  
23 taken on in a separate project, so that the readers know

1       that this isn't the final decision.

2               Mr. ALLEN:   Okay.

3               MS. FRANZEL:   I guess just a high level  
4       consideration for that project as you move forward is,  
5       given all of the recent activities and some of the  
6       interactions, I'll call it, between the Federal Government  
7       and the private sector, we probably do need to leave some  
8       flexibility, but also have criteria for using FASB  
9       standards.

10              MR. JACKSON:   Couldn't that be, it may be here,  
11       but is there any discussion of that in the basis of  
12       conclusion right now that there's another project?

13              MS. RANAGAN:   It's in footnote 6, paragraph 9.  
14       But I think what we need to do is explicitly mention that  
15       we're going to revisit the whole issue of source of GAAP.  
16       It just mentions additional reporting that may be required  
17       of Federal entities [indiscernible]. But I think we ought  
18       to revise it to say that we're also going to reconsider --

19              MR. ALLEN:   Yes, because that was -- yes, thank  
20       you --

21                       [Simultaneous conversations.]

22              MR. JACKSON:   Well, little bit different focus  
23       [indiscernible] also consider for certain Federal entities

1 should be permitted to continue filing FASB, yes.

2 MS. RANAGAN: That specifically was referring to  
3 allowing them to convert to RIS. It's kind of implied  
4 there. We could make it.

5 MR. JACKSON: Yes, we could tune that note up.  
6 Those were the two projects that we [indiscernible].

7 MR. ALLEN: Thank you. It seems like, if we have  
8 additional comments maybe we can find a little bit of time  
9 tomorrow or respond to an email from you or something like  
10 that.

11 MR. JACKSON: Did they say they could prepare a  
12 ballot draft? It is possible we could get something like  
13 that tomorrow?

14 MR. ALLEN: I think you're looking at the next  
15 meeting.

16 FEMALE SPEAKER: That's going to take a little  
17 bit more time [indiscernible].

18 MR. ALLEN: I think they were just saying, should  
19 we go ahead with the next meeting with that, not have a  
20 public hearing. I think we've answered that question.

21 Thank you.

22 We want to welcome everyone here for our public  
23 hearing. This is an incredibly important public hearing

1       for us. I can't imagine a board addressing two more  
2       important projects or answering two more important  
3       questions than, is the Federal Government sustainable and  
4       how should that be reported in financial statements. And  
5       also the issue of how best to account for commitment or  
6       promises or whatever you want to call it to, under social  
7       insurance. We welcome people, at [indiscernible] invite  
8       you to come up as he does.

9               I would like to say, this is one of the more  
10       interesting projects, particularly the social insurance  
11       part of that. And so for testifiers, some are going to  
12       focus on one or the other projects, some will be responding  
13       to both and we'll try to allow time when you're responding  
14       to both projects as opposed to one of those projects. But  
15       as I'm reading comment letters and remembering the  
16       discussion we've had in this board meeting and sort of  
17       asking myself, how can people see the same circumstances so  
18       absolutely different. I wrote down the words Mars or  
19       Venus. I think I was thinking about this book that, people  
20       of different genders look at the same issue and respond  
21       quite differently. So I asked myself, am I on Mars or am I  
22       on Venus in regard to that.

23               So as we go through this, maybe you can identify

1     what planet your perspective is coming from. But it is  
2     interesting, because we really do have very different views  
3     of how to best report social insurance. There's always  
4     different views on sustainability reporting. So the  
5     purpose of the public hearing was to help educate the  
6     board, so that we can best communicate these issues. And  
7     so when we ask questions, it is not to challenge anyone's  
8     position. We ask questions to better understand the whys  
9     of your position, to help us better understand where you're  
10    coming from. So I want to say that nobody's, any position  
11    that's discussed, we've probably been arguing ourselves  
12    about a number of different positions.

13                 Again, we would ask you to make a statement, to  
14    keep that as brief as possible, allowing us time to ask  
15    questions about the whys. Welcome.

16                 MR. GOKHALE: Thank you very much for being  
17    willing to entertain my comments.

18                 I'm not sure which planet I'm on, but some people  
19    say I live in an ivory tower of academic [indiscernible].

20                 [Laughter.]

21                 MR. GOKHALE: I think a key conclusion or the key  
22    point from the exposure draft, the developed exposure draft  
23    on social insurance, was a compromise between the primary

1 and alternative views that were presented in the earlier  
2 draft and the compromises to the [indiscernible] closed  
3 group measure developed with the balance sheet as an  
4 independent item that was presented with the balance sheet.

5 I think this is a better step, it's a step in the  
6 right direction. [indiscernible] recognizes the accrued  
7 obligation as a liability. So I agree with this compromise  
8 but the question that I think should be asked or posed is,  
9 can it be improved upon. And I think two considerations  
10 apply, and I would like the board to consider, first of  
11 all, is it appropriate to place the closed group in a  
12 report independently or placed it within a context. So  
13 present another prior metric which would help place the  
14 closed group in a context. And I address that in my  
15 submitted comments. I don't want to go into the details  
16 right now, but in my attempts in the past to communicate  
17 what the closed groups means to even technical experts,  
18 I've found some confusion creeping in about how to  
19 interpret this measure, what exactly it means, what its  
20 definition means. It's basically, my understanding as an  
21 economist is, that it represents the total fiscal cost, the  
22 fiscal burden that current generations would shift to  
23 future generations if current generations, under the



1 assumption that current generations would treat it under  
2 current policies and practices throughout their lifetimes.

3 The operations, how you would do that, is not  
4 clear. And that's what leads, gets people into confusion,  
5 because as you're treating current generations under the  
6 current practices and policies, some future generations  
7 will also be exposed to those same practices and policies.  
8 So what does it mean that you're going to shift those  
9 burdens to future generations as measured by the closed  
10 group?

11 So I think it's better to place this measure in  
12 context by first reporting the open group measure  
13 independently. Because the open group measure extends  
14 fiscal treatment under current policies and practices to  
15 all generations, past, present and future generations.  
16 Once you have this measure, the closed group measure can be  
17 understood by the complement of the open group measure.

18 So I'd like the board to consider representing  
19 not just the closed group measure but also the open group  
20 measure with the balance sheet. So the closed group  
21 measure in particular can be placed in context with a  
22 consistent definition of what it means to extend current  
23 policies and practices into the future. That's point

1       number one.

2               The second point is, well, the open group measure  
3       will be presented in the discussion in another section  
4       which comes later. But apparently there are some concerns  
5       about the horizon over which it will be reported. In  
6       particular, the objection to reporting it in perpetuity is  
7       concerns about measurability in perpetuity of this measure.  
8       But if that is a concern, then why even report it in the  
9       discussion and analysis, if you're so uncertain about  
10      whether we can measure this particular method properly?

11              So I would say that concerns about measurability  
12      in perpetuity are misplaced and should not be an obstacle  
13      to reporting both the open and closed group measure, in the  
14      balance sheet, given the purposes to communicate the  
15      meaning of these measures and place the closed group  
16      measure in context. I think I will end there and open it  
17      up.

18              MR. ALLEN: Okay, excellent.

19              Questions people may have about the comments?

20              MR. JACKSON: You mentioned in perpetuity. Do  
21      you mean that finite measure or infinite measure?

22              MR. GOKHALE: Infinite measure.

23              MR. JACKSON: Infinite measure. And can I ask a

1 question about that? I've been stewing over this for  
2 several days. It struck me, and I'm just the accountant's  
3 accountant here, I'm no economist and this stuff sort of  
4 gets beyond me at times, maybe more often than I choose to  
5 admit. But I cannot for the life of me see the relevance  
6 of a measure that goes out in perpetuity. I cannot for the  
7 life of me. What would that mean to the average citizen in  
8 terms of reading a financial report on the United States  
9 Government?

10 MR. GOKHALE: Well, practically, I think the  
11 issue is whether reporting finite measures helps us make  
12 policy choices under full information. In another  
13 publication, a co-worker of mine, [indiscernible] suggests  
14 that in making policy choices, it is important to have full  
15 information about the [indiscernible] available for policy-  
16 makers to choose from. Under finite horizon measures, we  
17 argue that policy-makers decisions would naturally be  
18 biased in favor of policy options that minimize short,  
19 minimize the short-term shortfall that the finite horizon  
20 measure depicts at the expense of maybe increasing the  
21 overall imbalance that the new policy would occasion.

22 That's the context within which I argue for an  
23 infinite horizon measure, is that it provides full

1 information under the assumptions underling the measurement  
2 procedure, therefore assisting and eliminating as much as  
3 possible biases that are rife in policy-making, from basing  
4 our decisions on particular measures. So I think infinite  
5 horizon measures, even though there is question about how  
6 to communicate and interpret these measures, I think not  
7 reporting the full extent of the imbalance under the  
8 assumptions that underlie these measurement procedures  
9 would be the wrong thing to do. So it's a practical kind  
10 of concern.

11 MR. JACKSON: Don't we get into issues relating  
12 to, maybe serious issues relating to measurability, and for  
13 that matter reliability, notwithstanding the fact you can  
14 state the assumptions all you want. As you go out on a  
15 continuum, doesn't this all become sort of a, isn't it all  
16 drawn subject to enormous question?

17 MR. GOKHALE: Well, there are two ways in which  
18 you can address the uncertainty issue. One is about the  
19 policy issue going forward. As I have tried to describe in  
20 the statement I submitted yesterday, you may not have had  
21 time to read it, as the best policy [indiscernible] no  
22 issue, as policy uncertainty there's no issue. Because the  
23 operational assumption is that you're extending current

1 policy and practices from [indiscernible]. So there's no  
2 uncertainty about [indiscernible] policy, that's gone.

3 About the underlying demographic and economic  
4 projections, that involves thing like modality,  
5 [indiscernible] immigration and other rates, that are  
6 assumed based on historical information on these different  
7 rates.

8 When you make a finite horizon projection, there  
9 is an implicit assumption about what the rates are going to  
10 be during that period, that finite period. But think about  
11 standard finite period, the way I like to cite it is 75  
12 years, which is standard [indiscernible]. Well, think  
13 about the 75<sup>th</sup> year. In the 75<sup>th</sup> year, the shortfall that is  
14 included in the finite horizon [indiscernible] value  
15 measure is predicated upon a particular demographic  
16 economic outcome projected for the 75th year.

17 Well, now thing about the 76<sup>th</sup> year. In the 76<sup>th</sup>  
18 year, is it then natural to assume that there's no  
19 imbalance in the 76<sup>th</sup> year? Or conditioned on the  
20 assumptions, the underlying assumptions of policy,  
21 demography and economics for the 75<sup>th</sup> year, is it better to  
22 project or more natural to project an imbalance for the 76<sup>th</sup>  
23 year and include it? I will say that the 76<sup>th</sup> year

1 imbalance is likely to follow from the assumed demographics  
2 and economics for the 75<sup>th</sup> year. That's likely to be zero  
3 than to be something positive. The implicit assumption of  
4 it being zero, which is made when you cut it off at 75  
5 years, is less correct than making the right best guess of  
6 the imbalance of the 76<sup>th</sup> year and including it in the  
7 projections to make the total estimate a fuller estimate  
8 and so on. So I think that even when you think about the  
9 underlying demographic and economic projections and  
10 uncertainty about them, I think that given that we are  
11 basing our projections on conditional distributions of  
12 these outcomes, based on the historical evolution of the  
13 demographics and economics, I don't think it's appropriate  
14 to cut it off at 75 years. On both the policy uncertainty  
15 ground and also on ground of the demographic and economic  
16 assumptions that underlie these projects, I think cutting  
17 it off at a finite horizon is less correct than extending  
18 out through [indiscernible].

19 MR. ALLEN: Nancy?

20 MS. FLEETWOOD: I had a question on something  
21 that you had presented to us before, where you talked  
22 about, you thought both measures should be clearly  
23 demarcated in a section of the table. I was kind of

1       wondering what you envisioned. I was trying to think what  
2       you were thinking of when you said that.

3               MR. GOKHALE: Well, I note that in the exposure  
4       draft it mentions somewhere that the closed group line item  
5       is going to be clearly differentiated as being independent  
6       of the rest of the balance sheet contents. That's exactly  
7       what I meant. The reporting format that I presented in one  
8       of my submissions should be taken and reported along with,  
9       together with the balance sheet. But clearly, it's  
10      [indiscernible] communicated [indiscernible]. The items in  
11      the two sections of the page or report are not in any way  
12      related. The balance sheet reports the current national  
13      position of the Government and the closed group and any  
14      accompanying measures represent the forward-looking  
15      projection of the financial condition of the social  
16      insurance [indiscernible].

17              MS. FLEETWOOD: I was just curious if you were  
18      actually picturing it on another page with more explanation  
19      that it's a forward projection, or what you are actually  
20      envisioning.

21              MR. GOKHALE: Well, I'd say there should be some  
22      footnotes explaining that it's a forward projection and  
23      it's independent. But it's correct, and it's definitely, I

1 think other people here know exactly what you're talking  
2 about [indiscernible] different matter. What we don't know  
3 and cannot anticipate is what's the best way to communicate  
4 this information. But I think some notes are appropriate,  
5 they have to be carefully worded. But I think the bottom  
6 line is, I think it's better to place the closed group  
7 measure in context rather than just report it  
8 independently.

9 MR. ALLEN: Hal?

10 MR. STEINBERG: I noted in your letter that you  
11 had suggested that for the balance sheet we report the open  
12 and closed group measures before and above the assets  
13 liability [indiscernible] because you think the long-range  
14 perspective is much more important than the short-range.  
15 Are you familiar with the statement of fiscal  
16 sustainability that's in our other exposure draft?

17 MR. GOKHALE: Yes, I am.

18 MR. STEINBERG: Is that kind of what you're  
19 thinking about?

20 MR. GOKHALE: In general, I believe that for  
21 purposes of reporting the financial condition of these  
22 programs, it's more important to present the forward-  
23 looking information than report the existing financial



1 position of these programs that is the result of past  
2 decisions, accumulated, outcome of accumulated past  
3 decisions. We can do nothing about that. That's just  
4 what, where we are today. But where we're going is more  
5 important, and for purposes of [indiscernible] policy-  
6 makers and the public who have to grapple with making  
7 decisions about how to finance a program, they ought to get  
8 the information about where they are going first, and then  
9 [indiscernible].

10 MR. STEINBERG: So the format that we've used for  
11 the long-term fiscal projection for the U.S. Government?

12 MR. GOKHALE: I think that's [indiscernible].

13 MR. ALLEN: Jim?

14 MR. PATTON: This is related to what Hal was  
15 asking in that, looking into other reports, statements that  
16 we might have, it seems to matter to you whether this open  
17 group information is presented on the balance sheet versus,  
18 say, we had a statement of social insurance or a statement  
19 of changes in social insurance which included open group,  
20 the way you wanted it. But those are not adequate  
21 substitutes, in your mind, for the balance sheet  
22 presentation?

23 MR. GOKHALE: I think the earlier in the entire

1 report that [indiscernible] full extent of the imbalances  
2 [indiscernible] program, then [indiscernible] reporting as  
3 well are presented [indiscernible] better. Because I think  
4 the exposure would be wider, the report would be deemed  
5 more prudent and it would be far [indiscernible] to  
6 discussions going forward of the forward-looking  
7 information, along with open and closed group measures, was  
8 given more emphasis than it is today in other reports.

9 MR. PATTON: One problem we might faced as a  
10 board is that we have an elements statement which sort of  
11 limits what a liability is, the definition. And there  
12 would be those who would argue that even pats of a closed  
13 group aren't liabilities under that definition, much less  
14 the future generations.

15 MR. GOKHALE: I completely agree that this is not  
16 about recognizing the liability. This is about informing  
17 the public about the financial condition of these programs  
18 going forward, with all the attendant assumptions that are  
19 involved in making these particular, building these  
20 particular measures. These are not, this is not  
21 [indiscernible] recognition as relaying the implications,  
22 future implications of continuing on the [indiscernible]  
23 quality path. But that's more important than actually

1 [indiscernible] because we have [indiscernible] that range  
2 from [indiscernible] not inform at all [indiscernible] all  
3 along the spectrum. All of that spectrum, and considering  
4 where you draw the cutoff line is kind of, eliminates, all  
5 those concerns are eliminated when you say these measures  
6 are based on the assumption measures, continuing current  
7 policies through the future. These current policies are  
8 going to continue through the future, then whatever the  
9 Government's obligated to pay, however firm or infirm that  
10 is, is going to be paid under current policy and practice.  
11 So all that is swept aside.

12 MR. PATTON: So if you were the accounting czar  
13 suddenly, your first choice would be just to present this  
14 open group and closed group stuff on but not in the balance  
15 sheet?

16 MR. GOKHALE: Along with the balance sheet. And  
17 with timely [indiscernible].

18 MR. ALLEN: Nancy.

19 MS. FLEETWOOD: I'd like to do a follow-up, then,  
20 because actually, Jim, you just summarized that, but I  
21 actually was hearing you a little differently. I think  
22 what you were saying, if I was following you, and maybe I  
23 wasn't, the most important thing that you think we ought to

1 be doing in our financial statement is showing where we're  
2 going, what the long-term implications of these programs  
3 would be, closed and open. Having a snapshot in time,  
4 really, our balance sheet, I think he's saying, is not so  
5 important as it is this other information.

6 MR. GOKHALE: From a policy-making perspective.  
7 The [indiscernible] is not important, because from a  
8 policy-making standpoint --

9 MS. FLEETWOOD: Yes, I don't you really, we as  
10 accountants, most of us here are accountants, we've been  
11 arguing, or at least [indiscernible] make the argument as  
12 should it be an item on the balance sheet, should it be an  
13 item here. I think what you're saying is to heck with the  
14 balance sheet, you just want to make sure this thing is  
15 highlighted and really shown in some kind of forward  
16 projection type thing.

17 MR. GOKHALE: Maybe that's a difference from an  
18 accountant's versus an accounting perspective.

19 MS. FLEETWOOD: That's the way I understood it.

20 MR. PATTON: But that doesn't seem quite right,  
21 because when I asked whether, if the statement of social  
22 insurance covered the projections of the open group in it,  
23 then you thought that wasn't enough. So that's where I got

1       that the balance sheet is an important visibility factor.

2               MR. GOKHALE:  It's a visibility issue, yes.

3               MR. ALLEN:  And your comment was, the sooner, the  
4       better?

5               MR. GOKHALE:  Sooner the better.

6               MR. ALLEN:  Okay, go ahead, Hal.

7               MR. STEINBERG:  I think I heard Jagadeesh say,  
8       and other programs, too, which is not on the social  
9       insurance.  And that's why I think I agree with Nancy.  
10      What I hear him saying is that for a policy perspective, we  
11      want to know where we're going on everything.

12              MR. GOKHALE:  Where you're going on everything,  
13      not necessarily restricted to Government [indiscernible]  
14      reporting as one line item.  I'm saying, before the closed  
15      group and open group members associated with social  
16      insurance are an independent item [indiscernible].

17              MR. PATTON:  So does that mean that the statement  
18      of projections is not an adequate substitute for what  
19      you're asking for?

20              [Simultaneous conversations.]

21              MR. ALLEN:  Do you mean fiscal sustainability,  
22      Jim?

23              MR. PATTON:  Right.  I don't call it

1 sustainability.

2 MR. JACKSON: Fiscal projections.

3 MR. PATTON: The fiscal projections statement or  
4 whatever it's going to be could include some sub-components  
5 for major programs, which would presumably project into the  
6 future your current policy. So is that an adequate  
7 substitute?

8 MR. GOKHALE: Let me actually turn that around  
9 and say, there are two projects. One is about fiscal  
10 sustainability reporting, the other is about social  
11 insurance reporting. The current financial condition is  
12 such that most of the fiscal sustainability issues arise  
13 from social insurance programs. But I'm not going to split  
14 hairs about what comes first and where, I just want to make  
15 sure that, or I want to argue for making the presentation  
16 about social insurance programs prominent enough with  
17 proper emphasis, as early in the discussion in the report  
18 as possible. That's my concern.

19 MR. PATTON: Okay, thank you.

20 MR. ALLEN: Are there questions that we have?

21 MR. FARRELL: I guess I was going to ask  
22 Jagadeesh, some have argued that reflecting this  
23 information on the balance sheet, which historically has

1 not been used to preset additional information down at the  
2 bottom, would cause more confusion than clarity. I'm not  
3 of that persuasion. I think we're talking complex issues  
4 here anyhow. And I'm sort of with you that the more we can  
5 get these things out and visible, the people that need to  
6 understand these will look further for further explanation.

7 But, given that other people have different  
8 views, do you believe that putting this on the balance  
9 sheet would cause general confusion and cause people just  
10 to throw up their hands and not read further?

11 MR. GOKHALE: I think that the more confusion if  
12 the closed group measure was presented on its own without  
13 the context of the open group measurement. I don't think  
14 that the, I think actually the reporting would be improved  
15 if these measures were included with the balance sheet  
16 [indiscernible].

17 MR. ALLEN: Let me ask you, from an economist's  
18 view of the cost of social insurance, we have a statement  
19 of the cost statement, of what the Federal programs cost  
20 each year, kind of the operating statement. When you view  
21 that, do you view the cost as being what's paid out to  
22 recipients that year, or would an economist view cost as  
23 being what's paid out this year, including changes in

1 commitments that are made up or down during that year?

2 When you associate what the program costs us this year, is  
3 that a cash flow measure, or do you think of costs to mean  
4 those changes in commitments during the year?

5 MR. GOKHALE: The current cost is, well, the  
6 economists' definition of current costs includes even more  
7 than that. It includes the distortions that are introduced  
8 in private individuals' behavior as a result of having the  
9 Government program [indiscernible] because providing a  
10 benefit to someone subsidizes some activity, and the  
11 opportunity [indiscernible] behavior, which is a distortion  
12 from the alternative of no subsidy, which is also a cost.  
13 So an economist's definition of what cost is was very drawn  
14 and would not be included in any expansive definition of  
15 what costs would be in this kind of report. My view of the  
16 cost of the program is that the [indiscernible] costs, the  
17 current outlay, and the fact that on all of the books that  
18 obligate the Government to make future payments, under  
19 those laws, should also be considered as part of the  
20 financial condition of the program. It's not a current  
21 cost. It's the total cost of having this program in place  
22 would include not just today's outlays but also outlays  
23 that are projected in the future under those laws.



1           Again, this is a very strict definitional issue.

2           MR. ALLEN: So it's an economic cost as opposed  
3 to a cash flow cost?

4           MR. GOKHALE: It's the cost of having this  
5 program on the books of the Government. The economic cost  
6 is even broader. But it's just the cash flow cost. The  
7 present value cost is a direct cost, you might say, to the  
8 Government, of having this program on the books.

9           MR. ALLEN: All right. Thank you.

10          Other comments, questions? If there aren't any,  
11 I'll keep going, but I wanted to allow the board a chance  
12 to ask questions. Woody?

13          MR. JACKSON: Not to repeat what's already been  
14 said in a way, but it's almost as if we have a proposition  
15 here, in a sense, of changing the title of what  
16 traditionally has been called a balance sheet to maybe  
17 broaden the scope of that particular presentation. Because  
18 we look at the balance sheet as you describe, as a result  
19 of past events, let's just say, whereas the, I mean,  
20 arguably, this statement of social insurance, and to a  
21 great extent, is the result of past events, albeit it takes  
22 into consideration a lot of future events in terms of  
23 calculating the amount of the closed group and open group

1 measures.

2 But it's almost as if you may have an opportunity  
3 here in a sense to maybe broaden the scope, the traditional  
4 balance sheet in a way to let's just say better meet our  
5 financial reporting objectives.

6 MR. GOKHALE: I think that given that the two  
7 sections, the balance sheet section and what was reported  
8 [indiscernible] independent measures are independent, and  
9 is not the items in one are related to anything in the  
10 other. You might actually say the balance sheet actually  
11 is the balance sheet, it's not [indiscernible] change. But  
12 the format of the reporting has not been changed, but it's  
13 been extended by including this additional information.

14 MR. JACKSON: I just think the term balance sheet  
15 all of a sudden becomes, I don't know whether you'd call it  
16 an obstacle or not.

17 MR. ALLEN: That's true. And maybe that's the  
18 delineation --

19 [Simultaneous conversations.]

20 MR. JACKSON: One of the things that I think we  
21 have an opportunity, the reason I cast it as an  
22 opportunity, this is all about providing information,  
23 useful. I've said it to, ad nauseum, it's not only, it

1 speaks about the management of the Federal Government. In  
2 the one context, when you look back, assets, liabilities,  
3 in the traditional sense, and how well we've accounted for  
4 those, which demonstrated through, by reporting on internal  
5 controls and so forth, as to whether or not we've done a  
6 good job there, if you will. That's sort of a lay way of  
7 depicting it.

8 But that's good on the one hand, but on the other  
9 hand, we have a much larger, I'll call it, piece of  
10 information, for lack of a better word right now, which is  
11 also extremely useful to policy-makers and so forth. And  
12 it looks the other way. But it just seems to me that we  
13 have an opportunity here to cast a much bigger web around,  
14 I'm just going to call it out information for management  
15 purposes.

16 MR. ALLEN: Good, and that's what the department  
17 [indiscernible].

18 MR. FLEETWOOD: I just had one more comment.  
19 When I was talking to you, looking at what you read and  
20 hearing what you said, what struck me when I looked at  
21 that, the balance sheet, which has a traditional way that  
22 you look at it, assets, liabilities, equity, and then you  
23 have this one line item at the bottom. And it's, you know,

1       when I first came into this, and I'm new to this board,  
2       this is my first time here, and I looked at that, it was  
3       confusing to me. So then I started searching, okay, what  
4       does this mean, then when I finally saw it in context, when  
5       I saw what it meant with the open measure and how it all  
6       fit together, it made sense to me. But just as a person  
7       picking it up, it was confusing.

8               So I'm thinking, okay, if it's confusing for me,  
9       I always go from the thing, well, this might be confusing  
10      to somebody else. In my mind, what you're describing, I  
11      wouldn't care if we had a document before the balance sheet  
12      that said, okay, this is my projection, this is what it  
13      means. I don't care if it's behind it. I don't care if  
14      it's on there and tells you to go somewhere. But something  
15      about me, I just don't like picking something up that's so  
16      confusing, like you just look at it. I can't put it in  
17      context. And I was wondering, can you comment on that, is  
18      that anything to do with, because like with you, what you  
19      said, when I looked in the open measure and understood what  
20      it all meant, then it made more sense to me. But one line  
21      on the document felt funny to me. And I don't know if you  
22      have a reaction to that.

23               MR. GOKHALE: That is precisely what motivates my

1 suggestion there. I think we need to place that one line  
2 in context, and the best way to do that is to provide the  
3 prime measure of the open group, with the appropriate  
4 explanatory notes. Now, it might become such a big  
5 presentation that it should be placed before or after the  
6 balance sheet, but it should come very close to the front  
7 of the report [indiscernible] because people don't  
8 necessarily go through the entire appendices and so on,  
9 [indiscernible] discussions and summaries, to get the  
10 detail.

11 MS. FLEETWOOD: I was just thinking, I was  
12 concerned that people would want to put so much on a  
13 balance sheet, I just see them squeezing it all in there.  
14 And this notion that we all have to fit it on the balance  
15 sheet, that it's going to get to where it's not meaningful  
16 for people, if people say it's too much, I'm not getting  
17 anything from this, I wasn't sure that that's going to  
18 help.

19 MR. GOKHALE: I think including these items in  
20 the report is important. Also important is explaining the  
21 appropriate [indiscernible] meaning. I think most of the  
22 [indiscernible] is about that, not this [indiscernible].

23 MR. ALLEN: Last question.

1           MS. FRANZEL: I do have a question. I'm going to  
2     try to interpret what you've said and then ask you a  
3     question based on that. At a principles level, you're  
4     basically saying that you don't think the closed group  
5     numbers should be presented alone without proper context  
6     because it's too confusing. You also believe that there  
7     should be plenty of disclosure about these numbers, and we  
8     have been having this discussion in the context of having  
9     it on the bottom of the balance sheet.

10           So now I'm going to ask you a question based on  
11    an accountant's perspective. I'm an accountant and agree  
12    with Nancy on the confusing nature of putting it on the  
13    balance sheet, because basically a balance sheet has  
14    traditionally been what we own and what we owe, and it's  
15    based on a point in time. And this is a very widely-  
16    understood concept used in the private sector and the  
17    public sector.

18           And so I want to ask the question, based on the  
19    principles that you have discussed, as long as these things  
20    are disclosed and presented somewhere appropriately, are  
21    you saying that it must be on the balance sheet in your  
22    view or you're fine with it being presented in some manner  
23    that's understandable and in the proper context?

1           MR. GOKHALE: It should receive more emphasis and  
2 more prominence than it receives today. So presented  
3 somewhere is not good enough for me. Presented --

4           MS. FRANZEL: Somewhere with [indiscernible].

5           MR. GOKHALE: Presented up ahead in the summary  
6 or the preliminary part of the report, first part of the  
7 report, where the [indiscernible] is presented, is more  
8 important. If it's presented somewhere on page 736, it's  
9 not given the prominence that it needs.

10          MS. FRANZEL: Thank you.

11          MR. ALLEN: And I had a question, too, but I said  
12 that would be the last. Very, very quick one.

13          MR. PATTON: I don't have a question. I have a  
14 comment. And that is, I don't think we can leave that last  
15 exchange without saying that what's owed and what's owned  
16 is not our definition of what liabilities and assets are.  
17 It's more sophisticated than that. And I think this  
18 compromise to put it somewhere on the balance sheet is a  
19 compromise from the position that it is in fact a liability  
20 under our definition of liability.

21                So it's a, I'll just say the neutral word  
22 compromise.

23          MR. ALLEN: Thank you. We will be addressing

1       that compromise, if you will. So thank you.

2               MR. GOKHALE: Thank you very much.

3               MR. ALLEN: Let me ask you, and anybody else. I  
4       have another question, I'm sure other people did. If we  
5       submitted questions in writing, would you be willing to  
6       respond back, and maybe we could share those, in writing,  
7       questions with the board?

8               MR. GOKHALE: Without doubt, yes, of course.

9               MR. ALLEN: Well, Mr. Walker, last time I  
10      introduced you it was The Honorable, but I've since heard  
11      the title Rock Star. Which of those would you like to go  
12      by?

13              [Laughter.]

14              MR. WALKER: Dave.

15              [Laughter.]

16              MR. ALLEN: It seems since you're addressing both  
17      of our projects, we probably as a board need to exercise  
18      discipline in time as well as focus and have you address  
19      the first projections project, and then this social  
20      insurance project. It seems like to me otherwise one may  
21      dominate totally. So I'll kind of be the unofficial clock  
22      watcher and cut us off and move us to the next one. So if  
23      you want to make your comments first on the sustainability,



1 or projections, I guess, is whatever we're calling the  
2 project, and then we'll have questions related to that.

3 MR. WALKER: Thank you, Mr. Chairman. It's a  
4 pleasure to be back at GAO before the FASAB to be able to  
5 address these two proposals, one dealing with comprehensive  
6 long-term [indiscernible] projections and the other one  
7 dealing with social insurance.

8 I'd like to start off by putting this in context.  
9 In September of 2003, I gave a speech at the National Press  
10 Club, which was unprecedented for a Comptroller General,  
11 entitled Truth and Transparency. I think those two words  
12 are very applicable to these two statements. Because I  
13 don't think that our current financial report represents  
14 the truth, and I don't think it provides enough  
15 transparency. I think you need changes to be able to  
16 address that.

17 At the time, September of 2003, I talked about  
18 the deteriorating financial position of the Country that  
19 was projected over time in our fiscal outlook. It's a lot  
20 worse today than it was then, and it's deteriorating more  
21 rapidly. In my view, there clearly is a need for fiscal  
22 sustainability and intergenerational equity report. That's  
23 what I call it, you may decide to call it something else.

1 In my view, we clearly need to be able to modify reporting  
2 with regard to social insurance programs. Mind you, it may  
3 not be some of your views, but I do believe that there's a  
4 liability that ought to be recognized that's not  
5 recognized. But I don't believe that it's as large as some  
6 of the members on this body may make of it.

7 And I think that this body has an opportunity to  
8 try to make progress towards providing that truth and  
9 transparency, although I will tell you that not many people  
10 read these financial statements. Very, very, very few  
11 people read them. I give a lot of speeches, I do a lot of  
12 testimony. And many times when I end up giving speeches,  
13 including to CPAs, very few hands go up, if any, in the  
14 audiences. Now, those are certified public accountants.  
15 And they're in the accountability business. If I ask with  
16 regard to the general public, even fewer.

17 So I think that it's important for you all to do  
18 what you think is right. I also think it's important that  
19 the Government, the Treasury, et cetera, try to be able to  
20 convey information in a more user-friendly format, in a way  
21 that people might actually read it. And they're starting  
22 to do that, through some annual reports and various other  
23 things. And frankly, our foundation, the Peter G. Peterson

1 Foundation, has committed to publishing an annual citizen's  
2 guide to the state of the Union's finances. We published  
3 one last week, we're going to publish another one by March  
4 15<sup>th</sup> which would be more color graphics, the bottom line  
5 numbers, and the size that you can fit in your coat pocket,  
6 so it's much more portable, it's much more user friendly.  
7 I expect that frankly, it will be read a lot more than the  
8 full report for understandable reasons.

9 I want to commend you for recognizing the need to  
10 include selected stewardship information in the financial  
11 statements. My personal view is a statement of net assets  
12 for a sovereign nation is of marginal benefit. At the same  
13 point in time, I think that we clearly need something that  
14 deals with fiscal sustainability, intergenerational equity.  
15 Because only the Federal Government has the power to tax,  
16 only the Federal Government has the power to borrow without  
17 limit. And it's doing a lot of the latter right now, and  
18 it has serious long-term fiscal sustainability and  
19 intergenerational implications. Those aren't just  
20 financial issues, those aren't just fiscal issues.  
21 Frankly, they're moral issues. And I think that we need to  
22 have more transparency with regard to some of this  
23 information.

1           I think additional disclosure here is  
2     appropriate. I think it's also appropriate to employee  
3     reasonable assumptions that are used by other Government  
4     agencies, to the extent that the auditors believe they are  
5     reasonable. I think the more different sets of assumptions  
6     you start introducing out there the more confused the  
7     public's going to get.

8           I used to be a trustee of Social Security and  
9     Medicare from 1990 to 1995. And the trustees have a  
10    responsibility, working with the actuaries, to come up with  
11    their own set of economic, demographic and other  
12    assumptions. Sometimes they're the same as what other  
13    entities in Government, OMB or CBO, may come up with.  
14    Sometimes they're somewhat different. But they have an  
15    independent responsibility to come up with their own and  
16    not to blindly follow what others may do. I think that  
17    they tend to have a little bit more objectivity, clearly,  
18    than at least OMB, which is part of an Administration and  
19    therefore has to be able to work with some of the policies  
20    and initiatives that the Administration has, whichever  
21    political party it might be, and whichever individual might  
22    occupy the office of President of the United States.

23           I think that there's some additional guidance

1 that's needed with regard to projecting revenues,  
2 especially when you end up, how are you going to deal with  
3 sunset provisions, how are you going to deal with,  
4 especially when there's broad-based agreement that not all  
5 of those are going to sunset. There's some practical  
6 problems that are going to have to be worked through. I  
7 don't have all the answers on that. But you've seen the  
8 Congress start to do things more where they're supposed to  
9 be temporary, and you're going to have to figure out how  
10 you're going to handle that.

11 As I said, too few people read these financial  
12 statements. In my view, and this is a comment that relates  
13 to both the first statement and the second, in my view the  
14 Government has something called "trust" funds, and you have  
15 to put them in quotes, because they're not really trust  
16 funds. They don't meet the definition of Webster's  
17 dictionary, they're not consistent with the generally-  
18 accepted definition that people would have in the private  
19 sector or as fiduciaries. And I think the trust funds,  
20 frankly, in larger part are a fiction.

21 At the same point in time, I think the bonds that  
22 are associated with those trust funds are not a fiction.  
23 They are, they represent legal, political and moral

1 commitments of the United States. They're guaranteed as to  
2 principal and interest. They're backed by the full faith  
3 and credit of the United States Government. They will be  
4 honored. And if they aren't honored, I believe it's a  
5 default. And I think our current accounting and reporting  
6 is trying to have its cake and eat it too, and it's causing  
7 very confused signals in the American people by not somehow  
8 treating those bonds as a liability. What's the deferred  
9 revenue? I don't know. But I think the idea that we took  
10 the people's money, we spent the people's money, we gave  
11 back an obligation of the United States guaranteed as  
12 principal interest, backed by the full faith and credit of  
13 the United States Government, counted it in the debt  
14 ceiling limit, but not shown in the financial statements of  
15 the U.S. Government is a liability and it is a real  
16 credibility problem. I also don't think it reflects  
17 reality. I think while trust funds are a fiction, those  
18 bonds will be honored.

19 And I think it also serves to understate a lot of  
20 important ratios, debt to equity ratios. There are people  
21 who say, well, we don't really have to count those, our  
22 debt burdens are really a lot less than they really are.  
23 Well, I don't know any other country that has these kinds

1 of fictional trust funds like this. Most other countries,  
2 when they have them, there's actually money in them, like  
3 Norway, has like real investments in them. So I think we  
4 have to clean that up. I think it's appropriate to use the  
5 75 year time horizon for the financial statements. I think  
6 it's fine if you disclose perpetuity, but one of the things  
7 that I find, you tell Americans this is perpetuity, they  
8 go, what does that mean? Well, it means the end of time,  
9 they go, okay.

10 I think we have to be pragmatic. I think we also  
11 have to, as I said, try to piggy-back as much as we can on  
12 things that are used by others, and Social Security and  
13 Medicare trustees have to do it for 75 years. They  
14 disclose it for perpetuity, but I think to the extent that  
15 we can have consistency as much as possible, I think it's  
16 good.

17 Frankly, the numbers look bad enough for 75  
18 years. You can go in perpetuity, but the message really  
19 isn't going to change that much. And I think it causes  
20 more confusion among the public.

21 As far as the name for the statement, what I  
22 would suggest is statement of fiscal sustainability and  
23 intergenerational equity. But the reason I say that is I'm

1       also suggesting that you have some disclosures as to what  
2       the implications would be in the current path on tax  
3       burdens, on cuts in spending or programs. You may decide  
4       to do something in addition to that. But I think if you at  
5       least show the extremes, and by the way, I don't think the  
6       extremes are the answer, but on the other hand, at least it  
7       shows you the bounds and you're not, it's not arbitrary.  
8       You're basically showing the bounds. You may decide you  
9       want to show something in addition to that, but I think at  
10      least the bound would have some meaning. And what that  
11      would be at different points in time in the future, if we  
12      waited to do something until X, and here's what it would  
13      mean with taxes, here's what it will mean with spending  
14      reductions. If we waited until Y, here's what it would  
15      mean. So people see the benefit of trying to act sooner  
16      rather than later, so you can get the miracle of  
17      compounding working for you rather than against you, as it  
18      is right now.

19               I think you need to think about additional  
20      disclosures with regard to tax expenditures. There's a lot  
21      of emphasis on spending programs and this Government spends  
22      over \$3 trillion a year at the Federal level. But it also  
23      foregoes revenues of a trillion to a trillion to and a half



1 a year, deductions, exclusions, exemptions, credits, not  
2 subject to the budget process, it's not subject to the  
3 appropriations process. They tend not to get a whole lot  
4 of review, and you really don't see them in the financials.  
5 I think we need more transparency over that.

6 And I think to the extent that you're going  
7 provide additional disclosures with regard to major factors  
8 that are driving spending, whether it's demographics or  
9 health care costs, and I think those are two big ones,  
10 clearly, I think you also need to think about what are some  
11 of the major factors or what are some of the major issue  
12 with regard to tax expenditures. For example, the single  
13 largest tax expenditure is the exclusion from both income  
14 and payroll tax for employer-provided paid health care. I  
15 think it's about \$250 billion as of last year, and it's  
16 growing very fast. That's a lot of money. And it's  
17 something that I think needs a lot more transparency than  
18 it gets right now.

19 I think it's also appropriate that this statement  
20 be audited after a reasonable transition period. I'm a  
21 little bit concerned about the optimism of how quickly you  
22 think you might be able to get this adopted. I think you  
23 need to think about that. I strongly support requiring

1 reporting of debt held by foreign lenders. I think that's  
2 a serious risk. At the end of World War II, this Country  
3 had debt equal to 122 percent of GDP, an all-time high.  
4 But there was a big difference: it was all owed to  
5 Americans. Today, we have debt, you consider both trust  
6 fund debt and public debt, we have debt equal to about 75  
7 percent of GDP, it's probably going to be 85 percent of GDP  
8 by the end of this year, it's going up rapidly, and the big  
9 difference is, of the debt held by the public, because they  
10 can't buy the trust fund, of the debt held by the public,  
11 over 50 percent is held by foreign lenders, 70 percent of  
12 the new debt's being purchased by foreign lenders. That  
13 has significant economic, foreign relations and even  
14 potential national security and domestic tranquility  
15 implications over time if we don't change that path. So we  
16 need to have more transparency, not only over what our true  
17 financial condition is and the nature of our obligations,  
18 but who holds those obligations, so that people can  
19 understand what the potential other implications are, not  
20 just financial implications, but otherwise.

21 Those would be my comments with regard to the  
22 first statement, and I'll reserve on the second one. I  
23 don't have that much more on the second one, because I

1 think there's some overlap.

2 MR. ALLEN: There is, but let's go ahead and  
3 pause here and take questions that people have. Looks like  
4 nobody's jumping up to take Woody's position of asking the  
5 first question, so go ahead, Woody.

6 MR. JACKSON: I have several questions. One, I  
7 just want to say, one's actually just a comment, we talk  
8 about user-friendly formats. I was commenting to someone,  
9 a fellow member of the board earlier that when you look at  
10 the sustainability reporting material and so forth, coupled  
11 with everything else, it's almost as if we're ensuring that  
12 nobody will ever read this, because the volume is, even for  
13 the comprehensive annual financial report of the Federal  
14 Government, is just becoming to the point where you use to  
15 balance your desk to keep it from rocking.

16 MR. WALKER: A doorstep.

17 MR. JACKSON: A doorstep, actually a good one for  
18 a big, heavy door.

19 So I really think that we as a board and others  
20 need to think about that, and to move toward a much more  
21 concise reporting, with appropriate disclosures, of course.  
22 Because if we want people to do something with this  
23 information, they've got to be encouraged to read it. It

1 will be interesting to see the package that you will put  
2 together.

3 The second thing that I wanted to ask you about,  
4 because of your former position, and the GAO being able to  
5 report favorably on the statement of social insurance, I  
6 think, was it last year, maybe, I'm not certain how many  
7 years they've been able to report on that unqualified  
8 fashion, is that correct, Jeannette?

9 MS. FRANZEL: One year.

10 MR. JACKSAON: One year. I just can't remember  
11 exactly --

12 MALE SPEAKER: Two years.

13 MR. JACKSON: Two years. The thing that I worry  
14 about is that if we take, if we go out to infinite, to an  
15 infinite horizon, don't we start encountering problems with  
16 being able to assess the reasonableness of the assumptions?  
17 A while ago, it was mentioned, we've certain things that I  
18 think you can deal with, and that's the policy side of the  
19 equation. Those kinds of things, maybe you can assess the  
20 reasonableness of the policy sides of the equation. But as  
21 I understood Jagadeesh a while ago, we've got the other  
22 side of the equation, all the demographics and so forth,  
23 which I fully can't comprehend.

1           However, don't we start encountering problems  
2       with having the auditor to sign off on the reasonableness  
3       assumptions that go out long beyond maybe the existence of  
4       the human beings, for that matter? So I ask that question,  
5       and I don't know whether it's, if you were in your old  
6       shoes, if you were in your old shoes, and your staff came  
7       down the hall and asked you to sign off on the  
8       reasonableness of assumptions relating to an infinite  
9       measure that takes you out infinitely, it would be  
10      interesting to hear what your reaction to that might be  
11      when they were sitting across your desk. That's my first  
12      question.

13           Let me just go ahead and walk through a couple of  
14      these, and then you can sort of give them appropriate  
15      levels of balance. That really takes me to something that  
16      has been repeated by a number of people in which, and you  
17      mentioned it a minute ago, that maybe this should be, you  
18      didn't use the term RSI, but this should be looked at maybe  
19      as something less than auditable information for a time  
20      longer than the three-year transition period. And so  
21      others have indicated that maybe it should remain RSI,  
22      maybe indefinitely. Then I think my first question to you  
23      with regard to whether or not you felt you could sign off

1 on data that goes out infinitely, and then the observation  
2 as to whether RSI would be appropriate for, let's just say,  
3 a longer term period of time, those two questions I think  
4 are hand in glove. Would you recommend that the RSI be at  
5 status for, let's just say, an indeterminable period of  
6 time?

7 MR. WALKER: My attention span is maybe two  
8 questions long. So if I could answer --

9 [Laughter.]

10 MR. JACKSON: I have one more question, though,  
11 that I want to ask --

12 MR. WALKER: Is it related to either of these?

13 MR. JACKSON: Not really, it would go to the  
14 heart of -- but I will stop there if you will afford me the  
15 opportunity to ask one more question. I want to go back to  
16 the heart of this business of whether you could sign off on  
17 infinite measures.

18 MR. WALKER: First, I gave you a copy of last  
19 year's report we had circulated around. We have a new one  
20 that's going to be coming out. We are going to make some  
21 changes. One of the things I want to do is I want to have  
22 a one-page summary of key statistics right up front, the  
23 key numbers that you will care about as a citizen, if you

1 will, which is what we did when I was a trustee of Social  
2 Security and Medicare 1990 to 1995. And that report's  
3 read, and it's about the only thing that is read,  
4 [indiscernible] that comes out of the [indiscernible] stood  
5 the test of time.

6 Secondly, to clarify what my comments was, I do  
7 think that the statement ought to be audited. I just think  
8 after our transition period, but I think may be a little  
9 bit optimistic about how quickly this can be adopted. So  
10 I'm saying you may want, you know, you may want to have  
11 another year or so before it's adopted, have a transition  
12 period. But after that, it should be audited.

13 Thirdly, the further out you go, obviously, the  
14 more uncertain things are. And 75 years is a pretty good  
15 way out. And then only what the trustees do is they come  
16 up with as best estimate as they can for the next 10 years.  
17 I think you can come up with some reasonable assumptions  
18 for 10 years. You go beyond 10 years and ultimately,  
19 you're looking at an ultimate assumption. You're looking  
20 at what do you think things are going to average over an  
21 extended period of time, recognizing there's going to be  
22 volatility.

23 My personal view is that the volatility's going

1 to be less when we get through this recession, because  
2 we're going to have to end up saving more, consuming less.  
3 And that means that [indiscernible] growth rates are going  
4 to be slower, but hopefully more sustainable. Just one  
5 thought.

6 So I think that for a lot of reasons, it's better  
7 to stick with 75 years. As far as being able to sign off,  
8 look, I mean, there's an emphasis paragraph. So you have  
9 an emphasis paragraph to draw the reader's attention to the  
10 fact that these are based upon a number of assumptions. IO  
11 think that ultimately you can get comfortable as to the  
12 reasonableness of those assumptions. But you need to have  
13 that emphasis paragraph to help people understand that  
14 there's inherent uncertainty associated with this. People  
15 need to know that.

16 I think there's more than a little irony, quite  
17 frankly, with the fact that the only statement in the  
18 consolidated financial statements of the U.S. Government  
19 that has a clean opinion is the one with the biggest  
20 numbers. And I think one of the things you have to pause  
21 about is, candidly, beyond the scope of this hearing, but  
22 I'd be happy to come back at another time, I think you have  
23 to re-think the usefulness of some of these other



1 statements, and what are some of the obstacles that prevent  
2 them from being in a position where you can express an  
3 opinion on them. In particular, I'm talking about the  
4 statement of net assets.

5 MR. ALLEN: It's on our agenda tomorrow.

6 MR. JACKSON: Can I have one more question?

7 MR. ALLEN: Really quickly.

8 MR. JACKSON: Actually, it would be really close  
9 to Jim Patton's heart.

10 You made a comment a while ago about the default  
11 on bonds, social security bonds, and if the Government  
12 defaulted, if they didn't pay or whatever, I can't recall  
13 your exact characterization, but this would truly be, in  
14 your view, and I would agree, an absolutely default  
15 situation. No different than if the Government defaulted  
16 on its GO bonds to the public.

17 MR. WALKER: Yes. In my view, look, the trust  
18 funds are a fiction. They should be called trust the  
19 Government funds. As my boss says, Pete Peterson, he says,  
20 you can't trust them, they're not funded. And so, but the  
21 bonds aren't a fiction, the bonds are real. They represent  
22 a legal, political and moral commitment. They're backed by  
23 the full faith and credit of the United States Government.

1       They're guaranteed as to principal and interest. They will  
2       be honored, they will not be defaulted on.

3               So I think one thing for sure that you can count  
4       on, no matter whatever else happens, those are going to be  
5       honored. And I think that we need to recognize that  
6       reality. And I do believe that if they weren't honored, it  
7       would be a default, and it shouldn't be treated any  
8       differently than bonds held by somebody else.

9               MR. JACKSON: I'm actually just taking this a bit  
10       further, because once you recognize that the money that's  
11       been deposited with the Government in excess o the current  
12       cash flow requirements, once you recognize that as a true,  
13       let me just say debt level obligation, doesn't it stand to  
14       reason that the unfunded part of it to the public is  
15       equally, arises to a similar level of commitment?

16              MR. WALKER: No. Do you want me to answer that?

17                   [Simultaneous conversations.]

18              MR. ALLEN: We've kind of moved into the other  
19       project a little bit.

20              MR. WALKER: I'll hold that. I'll hold why the  
21       answer's no.

22              MR. SCHUMACHER: Well, I had a similar question.  
23       I was curious as to whether, I want to make sure I

1       understood what you were saying about the liability that we  
2       have related to the bonds that are in the trust fund.  
3       Would you propose, some have suggested that the liability  
4       that should be on the balance sheet is only due and  
5       payable. Others have proposed that we should have the  
6       closed group or the open group or some other liability.

7                Would you propose that what should be contained  
8       in the balance sheet is this liability for the trust fund  
9       plus the due and payable that's currently on there today?  
10      In the balance sheet?

11             MR. WALKER: Yes. The due and payable and  
12      whether you call it, you know, whether you call it debt,  
13      whether you call it deferred revenue, I think we can have a  
14      debate about that. But the idea is, the amounts that  
15      represent a past exchange, in other words, people paid in  
16      money. So I think there's an exchange here that's not  
17      being recognized. The Government spent the money on  
18      something else, they gave them a bond, that bond has legal,  
19      political and moral significance. It will be honored. I  
20      think that needs to be up there.

21             So I actually think there's more that should be  
22      on the balance sheet, if you're going to have a balance  
23      sheet. And then several trillion dollars. And m personal

1 view is, the failure to put that on there materially  
2 represents the statement of [indiscernible], materially  
3 [indiscernible] miserably [indiscernible] but purely  
4 misrepresents the statement of net costs. For example, in  
5 the last 40 years, we had 4 years of so-called operating  
6 surpluses. If we change the accounting for this, we had 1.  
7 Because what happens is that you end up understating your  
8 deficits, because you're ignoring the fact that you've  
9 already spent this money and you have an irrevocable  
10 commitment, and that's going to have to be met.

11 Now, what's going to have to happen? On our  
12 current path, what's going to happen is we're just going to  
13 have to refinance it. We're just going to have to retire  
14 the trust fund debt and we're going to have to borrow it  
15 from China and Japan and OPEC nations the way things are  
16 going. So I view that more like a refinancing  
17 [indiscernible].

18 MR. SCHUMACHER: I understand. Thank you.

19 MR. ALLEN: John [indiscernible].

20 MR. FARRELL: David, thanks for coming today.

21 You brought up a great point about these foregone revenues  
22 and how much those might be and how that could impact the  
23 financial position of the operations of the Federal

1 Government. And you use the example of deduction of health  
2 care expenditures by corporations and not claiming it as  
3 income by the individuals who are receiving it. Somebody  
4 else might list the home mortgage interest deduction. You  
5 go onto the other side of that, and somebody might say,  
6 well, what about if we end subsidies to foreign countries.

7 Where, in your view, if we started addressing  
8 those things, are we dealing, as the board, with policy?  
9 Because I don't think we're supposed to deal with policy.  
10 You know, you have to sort these things out. Somebody's  
11 going to say, well, is that your role to pick on those  
12 certain items? I mean, I think they're great points, but  
13 is that us?

14 MR. WALKER: I think there is a very easy way to  
15 do it. It's called materiality. Basically what I'm saying  
16 is that when you're looking at the financial condition of a  
17 country, when you're looking at its fiscal activities, it's  
18 a combination of expenditures and revenues. My view is  
19 that tax preferences, or foregone revenues, represent back  
20 door spending. They have an impact on the bottom line.  
21 You're not getting these revenues.

22 What I'm saying is I think we need more  
23 transparency with regard to the major items. I think

1 obviously we disclose the big ones, and based on the  
2 concept of materiality or whatever else. And the big ones  
3 would be things like the exclusion from income and payroll  
4 tax for employer-provided paid health care, the home  
5 mortgage interest deduction. There are several ones that  
6 [indiscernible] if not all of them. You're not saying if  
7 they're good, bad or indifferent. You're just saying that  
8 they result in a material loss of revenues and it's  
9 something that people need to know. It's a separate issue  
10 as to whether or not they ought be modified, whether they  
11 should be eliminated, curtailed, whatever.

12 MR. ALLEN: Hal, I know it's your turn, but when  
13 you talked about that, it seemed like there was a lot of  
14 good communicative value of doing this. On the other hand,  
15 people said, and you would know this because of the role  
16 you played before, of independent and yet trying to make  
17 suggestions to guidance the legislative process. If we  
18 even list certain things, there was concerns that we may  
19 show, that it may be viewed, whichever one you list first,  
20 you may be viewed as --

21 MR. WALKER: This one cost \$250 billion, this one  
22 cost \$175 billion, this one costs \$140 billion.

23 MR. ALLEN: But if you list increased taxes

1       versus reduced spending --

2               MR. WALKER: Oh, you're talking about the fiscal  
3 gap. I'm talking about a different issue.

4               MR. ALLEN: Well, but it's related in terms of  
5 whenever we're showing alternatives or the potential impact  
6 or when you pay something off sooner versus later, do you  
7 think that we have danger of entering the political  
8 process?

9               MR. WALKER: The answer is no. And the reason  
10 being is, the trustees already do this to a certain extent.  
11 The trustees of Social Security and Medicare say, if you  
12 ended up raising the payroll tax today to deal with the  
13 gap, how much would it be. If you ended up cutting  
14 benefits today to make it balance, how much would you have  
15 to cut benefits.

16              So the precedent is already there with regard to  
17 what I'd suggested before for the fiscal sustainability and  
18 intergenerational equity. I mean, you're just showing the  
19 extremes. You're not saying it's good, bad or indifferent.

20              MR. ALLEN: Thank you.

21              Hal?

22              MR. STEINBERG: I have two questions, one very  
23 basic, one more conceptual. You're suggesting putting the

1 trust fund balances onto the balance sheet as deferred  
2 revenue or something like that?

3 MR. WALKER: Yes, something like that.

4 MR. STEINBERG: Would that apply also then to the  
5 Highway Trust Fund balances and Airport/Airway Improvement  
6 Fund, all the other trust fund balances?

7 MR. WALKER: I think in substance, the same thing  
8 is going on. In other words, if we took the money, we  
9 spent the money, they're backed by the same type of  
10 obligations. The key is, what happened, was there an  
11 exchange, and are these obligations essentially the same as  
12 what's in Social Security and Medicare. Are they backed by  
13 the full faith and credit of the United States Government?  
14 Are they guaranteed as to principal and interest? Was  
15 there an exchange that took place? And obviously, some are  
16 more material than others. Social Security and Medicare  
17 are the big numbers. But the others may not even be  
18 material.

19 MR. STEINBERG: My other question, though, is you  
20 mentioned the 75 year projection. I suspect that one of  
21 the reasons we came to 75 years is because that's what the  
22 Social Security trustees have used. It's their report over  
23 the years. And then you said that the project going out 75



1 years is very, very shaky. My concern is that when people  
2 look at what's going to happen 75 years out, they'll go,  
3 ho-hum. That's 75 years from now. Politicians for sure  
4 would say, I'm not going to be around in 75 years, so I'm  
5 not going to worry about that.

6 My concern is that if we continue on this current  
7 path, we're not going to survive 75 years. I'm more  
8 concerned about the short term. And I was wondering if you  
9 had any thoughts about how can we get more attention on the  
10 short term and the need to do something in the short term?

11 MR. WALKER: First, I believe the reason that the  
12 trustees picked 75 years was, it has something to do with  
13 the life expectancy. Basically, the idea, life expectancy,  
14 they picked a period of time where anybody [indiscernible]  
15 today, somebody who was born [indiscernible], of course,  
16 this was number of years ago, and now our life expectancy  
17 is going up. And so, if I'm not mistaken, although I'd  
18 have to double check it, the 75 years is actually in the  
19 law, too. I think we're required to do it for 75. So  
20 that's another reason why they picked 75. They do do  
21 supplemental disclosures which aren't required by law,  
22 which you may decide to do for financial reporting. But  
23 the question is, what do you want to peg on. I think as

1 much as possible, you ought to have consistency.

2 Now, as far as on our current fiscal path, we'll  
3 have a super sub-prime crisis way before 75 years if we  
4 don't start making tough choices.

5 MR. STEINBERG: Exactly.

6 MR. WALKER: What I mean by super sub-prime  
7 crisis, a super sub-prime crisis would be the loss of  
8 confidence in the ability of the Federal Government to get  
9 its financial house in order, a move away by foreign  
10 lenders from financing our ever-escalating deficits and  
11 additional debt needs, debt requirements, at low interest  
12 rates. So I think it's important that we take a number of  
13 steps to try to accelerate action to deal with our  
14 structural imbalances. I think if you have a fiscal  
15 sustainability intergenerational equity statement that  
16 helps to demonstrate that we're on a imprudent,  
17 unsustainable path, that there's a benefit to act sooner  
18 rather than later, that there are adverse consequences in  
19 continuing our current course.

20 I think if you end up having disclosures, and I  
21 suppose, that I've suggested for debt held by foreign  
22 lenders, that's an important dimension, I think, that bears  
23 on this. I think that to the extent that you add

1 liabilities for the bonds in the so-called trust funds,  
2 that helps. I think that to the extent that you emphasize  
3 cash flow, that's important.

4 For example, I think there are four common  
5 denominators between the mortgage-related sub-prime crisis  
6 and the Federal Government's finances. They are, number  
7 one, a disconnect between who benefited from current  
8 policies and practices and who bore the risk and paid the  
9 price. In a mortgage situation, the people who originated  
10 the loans and made the origination fees weren't the ones  
11 who held the loans and suffered the losses. In today's  
12 Federal Government finances, today's taxpayers benefit from  
13 low tax, high spend policies; tomorrow's taxpayers will  
14 bear the burden and pay the price.

15 Second, lack of transparency as to the nature and  
16 extent and magnitude of the real risks [indiscernible]  
17 challenge. That's for the mortgages. All these synthetic  
18 instruments, you don't really know what you have, who has  
19 what. The Federal Government, the problem is not the  
20 statement of net costs, it's not the statement of net  
21 assets, although they're getting worse, it's the off  
22 balance sheet obligations.

23 The statement of social insurance, having this

1 statement of fiscal sustainability and intergenerational  
2 equity will pull those numbers together and you'll be able  
3 to see the big picture.

4 Thirdly, not enough focus on, I mean, too much  
5 debt, not enough focus on cash flow and over-reliance on  
6 credit ratings. For the Federal Government, too much debt  
7 we're addicted to debt. Medicare's already negative cash  
8 flow. Social Security will be negative cash flow within 10  
9 years. Cash is key. So whatever you can do to demonstrate  
10 cash issued as well. And we have AAA credit rating today,  
11 but that ain't going to last if we don't end up getting our  
12 own financial house in order.

13 And last but certainly not least is a failure of  
14 oversight and risk management mechanisms to act until we  
15 had a crisis. Your job is to try to provide meaningful and  
16 useful financial information and other information, and not  
17 to set policy or whatever else. But I think what you do is  
18 very, very important. And I think you have an opportunity  
19 to provide more truth and transparency that hopefully will  
20 not only see its way into the financial statements but also  
21 can be used as a basis for further communications.

22 For example, the number we come up 2with, the  
23 \$56.4 trillion, the total Federal financial burden,

1     \$483,000 per household, \$184,000 per person, ten times  
2     median household income in America, that comes from the  
3     financial statements. It takes a number from the statement  
4     of social insurance, and it takes numbers from the  
5     statement of net assets, which you presumably pulled  
6     together for this fiscal sustainability and  
7     intergenerational statement. It takes the those two  
8     numbers. There's great power in saying, look, we didn't  
9     make up this number. It comes from the consolidated  
10    financial statements of the U.S. Government. So I think  
11    you have more of an impact than you may realize.

12           MR. ALLEN: Jim?

13           MR. PATTON: I'd like to return to the part of  
14    the question that Woody asked earlier. It may be a lack of  
15    imagination on my part, but it's hard for me to imagine how  
16    the assuming continuation of current policy without a  
17    change could be applied in a kind of a neutral, auditable  
18    manner, given the examples of, that are in the draft ED  
19    about things that don't fit that pattern. So it's  
20    [indiscernible] that it would be a political nightmare, and  
21    hard to audit.

22           MR. WALKER: Yes, it would be challenging. And I  
23    think one of the things you may have to think about is,

1 especially if people start using these sunset provisions  
2 with increasing frequency or whatever else, what you may  
3 have to think about as an alternative is to think about on  
4 the revenue side, different levels of taxation as a  
5 percentage of GDP. For example, historically, we've taxed  
6 at about 18.5 percent of GDP over the last 40 years. And  
7 in fact, when GAO does it's long-range simulations, it  
8 basically takes CBO numbers for the next 10 years, its  
9 sister agency in the legislative branch, and then it  
10 basically assumes an ultimate over time. And typically,  
11 it's what the, it's what the tax level is at that point in  
12 time. Some use what the average tax burden has been over  
13 years, some might use what it's scheduled to go to as of a  
14 point in time, and assume it's going to stay there. If you  
15 look in history, Americans have never allowed themselves to  
16 be taxed more than about 20.5 percent of GDP. And I think  
17 that's going to change. I don't think it's going to go to  
18 where we're headed absent major reforms, which is 30  
19 percent of GDP [indiscernible]. I don't think it's going  
20 to be there.

21 So I think you raise a good point, and I think  
22 one of the things you have to think about is how best to be  
23 able to convey the information in a way that is meaningful,

1       that can be explained.

2               MR. PATTON:   Would you suggest that those kinds  
3       of guidance be put in a prescriptive manner in the  
4       standard, or left to --

5               MR. WALKER:   You might want to give some  
6       illustrative example that are not necessarily binding.   I  
7       think you need to allow for some professional judgment.  
8       But I think you may want to have some guidance.   You may  
9       want to provide some guidance.

10              And I think the revenue side is much tougher,  
11       frankly, than the spending side.

12              MR. ALLEN:   Based on our time and the limitation  
13       that we have, would it be possible for us to just ask, we  
14       have the written response you have on social insurance, so  
15       what I'd like to do in the next five minutes that we have  
16       is open it for questions that one may have about the social  
17       insurance part of that.   I guess I'll exercise my option to  
18       ask the first question, because it relates to something you  
19       just said.   And it relates to the follow-up questions that  
20       we were having with Jagadeesh when you came in and that he  
21       ended on.

22              You indicated in an article that I read last  
23       night in the Post, the 56.4, your letter to the editor as

1 well as the number of commitments and obligations that one  
2 has, and you alluded just a minute ago to the fact that  
3 that is in the financial statements, with an adding  
4 machine, you can get there.

5 MR. WALKER: Yes, right.

6 MR. ALLEN: And it seems to me what we were  
7 discussing with Jagadeesh when you left is, wouldn't it be  
8 nice to have, maybe we have the wrong titles of balance  
9 sheet or whatever, but wouldn't it be nice to somehow have  
10 a mechanism that one can focus and gather on that number?  
11 Like I said, if you need to change the title of the balance  
12 sheet, go ahead and change the title, but you have that  
13 number, such that is it is understandable, without an  
14 adding machine, and people can then look at an operating  
15 statement and say, okay, this is how much it changed this  
16 year based on what we spend and based on policy decisions  
17 we're making.

18 But it seems like our financial statements are  
19 way overly complex to come up with the key information that  
20 you and others are talking about. Can you address that?  
21 That's said in lieu of your making a comment about  
22 alignment of balance sheets.

23 MR. WALKER: I think [indiscernible] meaningful



1 statement is a statement in [indiscernible]. Because as I  
2 said, I think there are things that ought to be on there  
3 that aren't on there, there are things that are on there  
4 that arguably shouldn't be on there, the power to tax, the  
5 value of Federal lands and other properties that we have no  
6 intention to sell. So when you look at that number, you  
7 see that we're in the hole \$10 trillion and you go, what  
8 does that mean? I would respectfully suggest that, this is  
9 an out of the box thinking, okay, maybe you ought to think  
10 about moving away from the statement of net assets and  
11 focusing on creating the statement of fiscal  
12 responsibility, intergenerational equity, and you may have  
13 different sections of that statement. So you end up having  
14 things that are here and now and firm, and then things that  
15 come from the statement of social insurance and you place  
16 more attention on that, so that you can aggregate some of  
17 these numbers. This is now, this is where we're headed.  
18 These are firm, these are commitments on our current path.

19 So you may want to think about doing that and  
20 whether or not you want to even want to keep the statement  
21 of net assets.

22 MR. ALLEN: I think that the balance sheet coming  
23 [indiscernible] that we had was an attempt to do that and

1 say, let's take the here and now, let's also add the other,  
2 so that somebody without an adding -- can at least on the  
3 same page see the numbers that you're talking about.

4 MR. WALKER: But my understanding is, and I could  
5 be incorrect, but my understanding is, those numbers will  
6 be on the statement of --

7 MR. ALLEN: The sustainability looks forward. It  
8 doesn't come up with those numbers.

9 MR. WALKER: Well, I guess what I'm saying is,  
10 maybe you ought to think about it, maybe you ought to have,  
11 this is where we are now, and this is where we're headed.  
12 Maybe we ought to integrate that. That might help.

13 MR. TORREGROSE: I have a quick question. I  
14 heard you several times use the word exchange when you were  
15 talking about the trust fund debt. Yet your statement on  
16 social insurance, you say for the closed group  
17 calculations, no exchange has occurred. I'm wondering if  
18 you can reconcile that.

19 MR. WALKER: In the case of the exchange for the  
20 trust fund debt, I sent in money, everybody here sent in  
21 money to the Federal Government. We were told, we paid  
22 payroll taxes, we were told that that money was going to be  
23 used solely for the purpose of paying benefits for social,

1 not necessarily for us, but for that program. And  
2 therefore, I gave you money with the understanding that  
3 you're going to commit it solely for this program, you  
4 spent it on something else. You've now put back a bond.  
5 That's the exchange I'm talking about.

6 In the case of the other, it's a good question.  
7 Unlike pensions and retiree health care, where there's an  
8 exchange of current services for current and future  
9 deferred compensation, not just in the private sector, but  
10 the Federal Government, I mean, we have an exchange, and we  
11 have a big liability hanging up on the balance sheet for  
12 pensions and retiree health care for civilian and --  
13 there's an exchange there. I don't believe that such an  
14 exchange exists for social insurance. And in fact, when  
15 you look at some programs, like Medicare Part B and D, my  
16 Lord, the Federal Government's subsidizing 75 percent of  
17 the cost. I mean, what kind of exchange is taking place.  
18 I mean, you know, we're in middle and upper class welfare  
19 programs. And I can assure you, those programs will be  
20 dramatically reformed. But there's no exchange there,  
21 other than, in my view, reasonable people may differ, but  
22 that's how I see it.

23 MR. ALLEN: Jim and Woody, a one-minute question

1 and [indiscernible].

2 [Simultaneous conversations.]

3 MS. FRANZEL: You mentioned that too few people  
4 read these financial statements, but we've also mentioned  
5 that there are very important bases, because you can take  
6 an adding machine and calculate some very important  
7 numbers, you can do these citizen guides like you all have  
8 and others to get the message out to the American people.  
9 You've been all over the Country talking to a whole lot of  
10 people. What is the bottom line that people need to get  
11 from these financial statements? And I understand that  
12 probably there needs to be some middle process here. But  
13 we really do need to have the basis here for people to take  
14 the adding machines to the numbers and to create  
15 information that can be used. What do you recommend?

16 MR. WALKER: I think the things that they care  
17 about are what are the real results of operations. And I  
18 think we are understanding our deficits now, because of the  
19 way we handle the Social Security and Medicare  
20 transactions.

21 Secondly, they care about how much debt we have.  
22 Thirdly, they actually are interested in who holds that  
23 debt. We did a poll, a research poll, about Peter Hart,

1       who's a leading Democratic pollster and Bill McInturff,  
2       who's one of the leading Republicans, on election night.  
3       And we asked, you know, a representative sample of  
4       Americans several questions. Let me tell you, a few things  
5       came back that were really shocking. Ninety-five percent  
6       of Americans were concerned about the deteriorating  
7       financial condition of the United States Government.  
8       Eighty-nine percent of Americans were concerned about our  
9       increased reliance on foreign lenders. So another reason  
10      why I think it's a real risk and I think it needs to be  
11      provided more disclosure.

12               I think they're concerned about where are we  
13      headed, not just where are we now, but where are we headed,  
14      and what are the implications under a do-nothing status quo  
15      let it ride path. There are implications for the Country,  
16      implications for them and implications for their kids and  
17      their grandkids. I think they're also very confused about  
18      these trust funds. There are some people who want to say  
19      that they actually have significance, and we don't really  
20      have a problem. My view on that is, we don't have a crisis  
21      on Society Security. There's no way. And Social  
22      Security's never going to go bus. But we have a problem,  
23      and the problem is large, and it's growing and it gets

1 worse with the passage of time, and it's prudent to solve  
2 it sooner rather than later, and it's actually a lay-up to  
3 solve it, not a slam dunk, but a lay-up.

4           So I think these are some of the things, I think  
5 they're confused about, well, where are the revenues? How  
6 much, where are the revenues coming from, where are we  
7 spending our money? A lot of people think that we can  
8 solve our problem by eliminating earmarks. . They're less  
9 than 1 percent of spending. A lot of people think we can  
10 solve our problem by getting out of Iraq and Afghanistan.  
11 That's about 4 percent of our financial hole. A lot of  
12 people think that we can solve our problem by eliminating  
13 all the Bush tax cuts or letting them all expire. That's  
14 about 11 percent of the financial hole.

15           So I think part of the issue is to understand  
16 where the public, not only what they want to know, but kind  
17 of what they need to know. Because they have some real  
18 misunderstandings or misperceptions about things. You'd be  
19 amazed how many people that if we eliminated foreign aid,  
20 we'd be okay. And we don't really spend that much on  
21 foreign aid.

22           Now, you've got to decide what the appropriate  
23 line is from a financial standpoint versus other

1 information.

2 MR. ALLEN: Thank you. What I'd like to do is  
3 actually cut off based on the time. Would you be willing  
4 to respond in writing to additional questions?

5 MR. WALKER: Yes, absolutely. Whatever I can do  
6 to help out.

7 MR. ALLEN: Thank you very much.

8 Dr. Galbraith and Dr. Mosler.

9 MR. WALKER: You all can keep the ones that I  
10 had, I just want to make sure that they don't have Tom  
11 Hanks' autograph on them.

12 [Laughter.]

13 MR. WALKER: The reason I say that is because Tom  
14 Hanks is buying an option on the film, and I got him to  
15 sign several, so I wanted to make sure I didn't give away  
16 those.

17 MALE SPEAKER: that's the one we were after.

18 [Simultaneous conversations.]

19 MR. ALLEN: Please be very quick, let's take a  
20 very, very quick break. We'll give you guys an additional  
21 five minutes at the end.

22 [Recess.]

23 MR. ALLEN: Could we ask the audience to -- we'd

1     like to turn the time over to Dr. Galbraith and Dr. Mosler.  
2     Again, a very fascinating and different perspective. I  
3     talked about different planets, and there are several  
4     different planets out there. So I'll turn the time over to  
5     you for any comments you want, and please allow us some  
6     time to ask you some questions.

7             MR. GALBRAITH: Thank you. I'm James Galbraith  
8     from the University of Texas at Austin. I'm accompanied by  
9     Warren Mosler, a Senior Associate Fellow at the  
10    [indiscernible] Center for Economic and Public Policy at  
11    the University of Cambridge [indiscernible].

12            I appreciate very much the opportunity to appear  
13    here, particularly given the somewhat sharp tone of my  
14    first intervention, which came in response to a request for  
15    comment from my colleague [indiscernible].

16            What we seek to do in our remarks here is to  
17    raise some fundamental questions about the project  
18    [indiscernible], in particular to pose the question very  
19    sharply whether it is appropriate to focus on these  
20    specters of solvency versus instability, which we believe  
21    are not well-defined questions, not problems that are  
22    likely to arise. And that the track, in fact, for a more  
23    appropriate focus on the actual problems that the issues



1     that we're examining could pose, namely, specifically, in  
2     the short run unemployment, if the management of the  
3     economy is not adequate to the current crisis, or in the  
4     longer run, inflation if some of the issue of excessive  
5     spending are [indiscernible] potentially are not addressed.

6             I want to first of all state some general  
7     principles and then to put some specifics on the table  
8     before you in just a very few minutes, and then turn over  
9     the floor to Mr. Mosler for a few thoughts.

10            The first and most basic general principles,  
11     there are two of them I'd like to mention, that separate  
12     the practice of accounting as it applies to the Government  
13     sector from the practice as it applies to the private  
14     sector. The first is that the Government's interest is the  
15     public interest. The Government is there to provide for  
16     the general welfare. That is the objective. There is no  
17     particular correlation between this interest and a position  
18     of surplus or deficit nor of indebtedness in the  
19     Government's books.

20            Secondly, the Government is sovereign. This fact  
21     gives to the Government authority that households and firms  
22     do not have. In particular, the Government has the power  
23     to tax and issue money. The power to tax means that the

1 Government does not need to sell its products and the power  
2 to issue currency means that it can make purchase by  
3 committing IOUs. No private firm can do this. They can  
4 neither require that the market buy their products nor  
5 their debt.

6 Those are basic matters, in fact, they're not  
7 controversial. But they tend to, I think, get overlooked  
8 to some degree when we are using the principles and ideas  
9 that derive from private sector accounting to develop  
10 appropriate financial standards for the U.S. Government.  
11 In the real world, of course, what we observe is that the  
12 U.S. Government does tend to run persistent deficits. This  
13 has been true since the beginning of the Republic, and it  
14 is matched by a persistent tendency of the non-government  
15 sector to save. The non-government sector accumulates net  
16 claims on the Government, the non-government sector's net  
17 savings is equalized by identity to the U.S. Government's  
18 deficits. Debt issued between the private parties cancels  
19 out, but debt between the private sector and the Government  
20 remains, with the private sector's net financial wealth  
21 consisting of the Government's net debt. So this is  
22 something which needs to be taken account of when you  
23 consider the position of the Government in relation to the

1 national [indiscernible], two general principles I wanted  
2 to raise.

3 And then I want to raise very specifically a  
4 handful of more specific points that relate to issue that I  
5 think need to be addressed in the development of the  
6 exposure drafts. First is a very basic principle  
7 concerning the nature of a balance sheet. The  
8 [indiscernible] drafts are intended to be statements of  
9 financial condition for the Government and for the Nation.  
10 The first point is that these two concepts, the Government  
11 and the Nation, are not interchangeable. And to use them  
12 interchangeably as the exposure drafts do is a source of  
13 confusion.

14 And the second point, in our understanding, a  
15 statement of financial condition is in general a balance  
16 sheet. And that term's been used already extensively this  
17 morning. But balance sheets, in our understanding, are  
18 generally constructed with two columns, one for liabilities  
19 and the other for assets. That's a principle which is  
20 true, it seems to me, for the public as well as for the  
21 private sector.

22 But in the drafts as we read them, there is  
23 essentially no effective treatment of the concept of

1 assets, either as it applies to the public sector or as it  
2 applies to the Nation as a whole. And the important point  
3 about developing a balance sheet for the Nation is the  
4 transfer programs which have liabilities to the Government  
5 are offset by assets to the public. So that very same,  
6 very large number of \$53.4 trillion or whatever the number  
7 was of our net present value of Government liabilities in  
8 Social Security is simply offset by comparable asset,  
9 Social Security wealth held by the public is a matter of  
10 accounting, it seems to me. If we are talking indeed about  
11 financial statements for [indiscernible], the accounting  
12 should reflect the assets on the balance sheets  
13 [indiscernible].

14 A second issue of definition that troubled us in  
15 the development of the exposure drafts is the use of the  
16 term budgetary resource. It was never very clear exactly  
17 what the term budgetary resource is intended to mean. The  
18 apparent concern in the document is that the Federal  
19 Government operate within the budgetary resources available  
20 to it and that the draft say that the budgetary resources  
21 should be sufficient "to sustain public services and meet  
22 obligations as they come due." What does it mean? If what  
23 is meant by budgetary resources tax revenue, then that's

1 clearly an inappropriate definition. As I've already  
2 noted, the Government does not need tax revenue sufficient  
3 to match spending in order to sustain public services and  
4 meet obligations as it comes due. It's obvious. The  
5 Government almost never has and never has had sufficient  
6 tax revenue for that purpose. It has run significant  
7 surpluses for only seven very brief periods in the history  
8 of the Nation, each of them followed by a depression or  
9 recession because of the effect of those surpluses on the  
10 private sector's capacity to spend. This is why we have a  
11 national debt to begin with.

12 And yet, despite this, the Federal Government has  
13 never in more than two centuries of operation lacked for  
14 budgetary resources sufficient to sustain public services  
15 and meet obligations as they come due. That's also obvious  
16 insofar as the Federal Government has never defaulted on  
17 its debt, including making all of its interest payments.

18 But if on the other hand the term budgetary  
19 resources is to be construed more broadly, which is  
20 possible, as to mean tax revenues and public borrowings  
21 sufficient to sustain public services and meet obligations,  
22 this too is problematic. The standard in that case was  
23 apparently intended to inform the public about the

1 borrowing capacity of the Government of the United States.  
2 That too is an interesting and important issue. Former  
3 Comptroller General Mr. Walker this morning has spoken  
4 about it extensively in the earlier hearing. But the  
5 procedures outlined in the exposure draft do not contain  
6 any information or guidance as to how to assess that  
7 situation and that question in an objective way.

8           The third point concerns the use of, or I should  
9 say, in our view, mis-use of economic projections and  
10 assumptions. The exposure drafts seek to assess what they  
11 call "the impact on the Country of the Government's  
12 operations and investments." It's very difficult to do  
13 this without assessing explicitly the economic effects of  
14 such operations and investments. For example, if a  
15 stimulus bill produces a higher rate of growth and a lower  
16 rate of unemployment, then that is surely an impact on the  
17 Country of the Government's operations and investments.  
18 What else could it be.

19           But the procedure of the exposure drafts, by  
20 fixing the economic forecast for the long term, explicitly  
21 propose to ignore those [indiscernible] and it sets to draw  
22 the inference that there are no real economic benefits  
23 associated with the higher growth or lower unemployment,

1       only financial costs of measures such as the stimulus bill.  
2       It's clearly not a sensible procedure when you are talking  
3       about policy that is specifically intended to influence the  
4       economic gaps.

5               Government spending can indeed be excessive, and  
6       the consequence of excess Government spending is not a  
7       refusal on the part of foreign creditors or anyone else to  
8       hold the bonds associated with that deficit spending, it's  
9       rather a possible devaluation of the dollar and a possible  
10      decline in the real terms of trade with a country and a  
11      rise in the rate of inflation. And that's an appropriate  
12      concern up to a point and under certain conditions.

13             But it is also ruled out by the proposed  
14      assumption and the exposure drafts of unchanged economic  
15      conditions. Unlike the non-issues that we mentioned  
16      briefly, this is a real concern and it's one that deserves  
17      actual attention. But if one focuses on the non-concerns  
18      then getting to the real one is something that doesn't seem  
19      to happen.

20             Fourth point, there is in the exposure draft a  
21      certain amount of back-door policy-making, and this is  
22      related to the concepts of fiscal GAAP and fiscal  
23      sustainability. In the draft, the board introduces this

1 concept of fiscal GAAP and states as a policy norm that it  
2 would be desirable "to maintain public debt at or below  
3 target percentage of gross domestic product." And this  
4 seems to be accepted in the drafts as a non-controversial  
5 position. And we do agree that setting such a target would  
6 be better than setting the target arbitrarily to zero.  
7 Because it does imply that the public debt can essentially  
8 grow alongside GDP, which is normally the case.

9 But there is no such policy objective in any  
10 statute of the United States Government. Nor can any such  
11 objective be justified by reference through any economic  
12 theory or operational constraint that we know of. There  
13 are times when the share of GDP, of debt in relation to GDP  
14 could rise, there are times when it should fall, and there  
15 are times where it will rise or fall irrespective of what  
16 policy does. So there doesn't seem to us to be any  
17 justification, either in law or theory, to attempt to  
18 legislate that matter in an accounting standard.

19 A fifth point concerns the question of time  
20 horizons, which you've already talked about at some length  
21 this morning. We believe that it is really unproductive to  
22 spend a great deal of intellectual effort trying to project  
23 the financial consequences of unknown events 75 years or



1 more into the future. And that there is a tendency when  
2 you do so to incorporate in the assumption projections,  
3 which are prima facie unrealistic. An example of this is  
4 the idea that health care costs can grow without limit as a  
5 share of GDP. Nothing can grow without beneficiary GDP, or  
6 it will end up absorbing all of GDP and is simply an  
7 unrealistic assumption. Something will happen to prevent  
8 that from happening. There will be health care reform or  
9 some other phenomenon but we will not be in an economy with  
10 no resources left to produce food, shelter, industrial  
11 goods and education.

12 So to project that out over an indefinite time  
13 period is simply an exercise which is in violation of  
14 Herbert Stein's law as articulated to President Nixon that  
15 when a trend cannot continue, it will stop.

16 We believe, and I'll be very brief, that it  
17 serves very little purpose, and no useful purpose, to  
18 project financial shortfalls for Social Security and  
19 Medicare and to refer this into the future, and no purpose  
20 whatever to revise those programs today on the basis of  
21 such projections. And in general, we believe that the  
22 notion that there is some unfunded liability amounting to  
23 tens of trillions of dollars in the U.S. Government's

1 accounts, and that this has some material effect on the  
2 current condition of the economy and the economy in the  
3 future is a simple misunderstanding, I use a stronger term  
4 in the testimony. There cannot in fact be any such  
5 underfunding because the U.S. Government always has the  
6 operational ability to make all payments as they come due,  
7 and we know, could do so, even if, through some strange  
8 accounting mistake or trick, one concluded that Government  
9 liabilities exceed private assets.

10 It's very important that these matters be dealt  
11 with in a way which is consistent with what we think are  
12 correct accounting principles and correct economic  
13 principles. Because otherwise, there will be a strong  
14 tendency for the policy effect of these proposals to lead  
15 to the unjustified gutting of Social Security and Medicare,  
16 two programs which certainly in my view and my colleagues'  
17 view, are of absolutely vital importance for sustaining the  
18 well-being of the elderly population of the United States  
19 and the population which is to be elderly at some time in  
20 the future.

21 I will turn it over to Mr. Mosler for a few brief  
22 comments.

23 MR. MOSLER: Thank you.

1           I just want to say, I'm 59 years old, I grew up  
2   on the money desk at Bankers Trust in the early 1970s. I  
3   know how the checks clear, I know how the accounts work.  
4   I've managed, on one of those, a hedge fund manager, I  
5   started my own fund in 1982. And fixed income  
6   [indiscernible] space. So I'm here again because I know  
7   how the monetary system works, how the debts and credits  
8   work. So I'm going to give you a couple of examples, five  
9   examples here.

10           For example, what happens when a Treasury bond  
11   matures? What happens when China's \$1 trillion in treasury  
12   bonds matures? What actually happens? Well, their  
13   securities account at the Fed is debited and their bank  
14   account at the Fed is credited. Done. End of story.  
15   There's no financial event that happens beyond that. Has  
16   their wealth changed? No. The financial assets are the  
17   same. Instead of having a securities account, which is  
18   nothing more than a savings account at the Fed, they have a  
19   checking account at the Fed. And then we ask them, what do  
20   you want to do then. And if they spend that money by  
21   buying or selling something else, we debit that account and  
22   we credit the account of whoever they bought it from.  
23   There is no money flowing overseas. That whole thing's

1       been a big misunderstanding.

2                   How does Government make a payment? We're  
3       talking about Social Security. But let me look at the side  
4       of collecting taxes, Social Security taxes. So if I go  
5       into the Federal Reserve and I decide, I was a waiter and  
6       I've got \$10,000 in cash, I'm going to pay my Social  
7       Security payment in cash. The Fed takes the money, they  
8       give me a receipt, they say thank you very much, you've  
9       just helped Social Security. And as soon as I leave the  
10      room, they throw it in the shredder. That's an operational  
11      fact.

12                  Now, how does taking my cash and throwing it in  
13      the shredder pay for anything? Well, of course it doesn't.  
14      The purpose of taxes, we go back into macroeconomics, is to  
15      reduce aggregate demand. It has nothing to do with our  
16      current currency arrangements for collecting the thing we  
17      actually need to spend on anything else.

18                  And how does the Government make a payment? So  
19      I'm looking at my computer screen, I'm 75 years old, I have  
20      nothing else to do. I have \$1,000 in my bank account and  
21      today's the day my Social Security payment hits. All of a  
22      sudden, the 1 turns into a 2. I've just gotten paid. How  
23      did that happen? Somebody at the Fed changed the number on

1 my bank account. They didn't take some gold coin out of  
2 some box and hammer it into the system. They didn't take  
3 somebody's taxes and give them to me. In fact, the person  
4 who made the payment doesn't even have the phone number of  
5 whoever's collecting taxes at the IRS or whoever's  
6 borrowing the money.

7 And where else do we see that happen? You kick a  
8 field goal in a football game and your score goes from 7 to  
9 10. Where did the stadium get those three points? You go  
10 bowling and you knock down five pins and your score goes  
11 from 12 to 17. Where did the bowling alley get your score?  
12 Do we believe that all bowling alleys should have reserves  
13 of 10,000 points in case bowling gets popular and people  
14 come in and get a large score to make sure that they don't  
15 run out? Of course not. It's the exact same thing.

16 So, let's look at the intergenerational transfer.  
17 Does this mean that in 2029 when our children build 20  
18 million cars, they're going to have to send them back to  
19 2009 to pay off the debt? I'm sure a lot of you can trace  
20 a lot of our debt to World War II. Are we still building  
21 goods and sending them back to 1945 to pay for World War  
22 II? Of course not. There is no intergenerational transfer  
23 of real goods and services. Whoever's alive gets

1       whatever's produced that year.

2               What it can affect and alter is the distribution  
3       of those goods and services produced in any given year.  
4       Yet, that's what government's all about, altering  
5       distribution, whether it's through altering income,  
6       altering spending power, altering tax advantage, whether it  
7       builds consumption grids or investment grids. We can alter  
8       the distribution any way we want. We are not burdening a  
9       future generation with anything by making these nominal  
10      changes to a spreadsheet at the Federal Reserve. They have  
11      full control over doing whatever they want with it.

12             And the last one that we talked about is that  
13      deficits add to savings. And this has been completely  
14      dismissed recently. I know some of you are from CBO and  
15      OMB. The first macro equation is the Government deficit  
16      equals the non-Government savings or surplus of financial  
17      assets. Which means, if the Government deficit is \$500  
18      billion this year, that adds exactly \$500 billion to the  
19      accumulation of financial assets o the non-government  
20      sectors, domestic, residents, non-residents, business. Add  
21      them all up, it has to add up to exactly \$500 billion, not  
22      \$599 billion and not \$501 billion, or somebody at the CBO  
23      has to stay late and find their arithmetic mistake and make

1       sure the books balance.

2               And yet we're bombarded with this idea that  
3       deficits somehow take away our savings.

4               And let me go through a very quick transaction  
5       here, again, operationally, this is no theory here, this is  
6       just accounting fact. The Government borrows \$100 billion.  
7       What does it do? It issues Treasury securities. How do  
8       they get paid for it? Somebody uses their bank account. A  
9       hundred billion in what are now reserves at the Fed with  
10      our new access reserves because the way the Fed's building  
11      their portfolio. So bank accounts at the Fed are reduced  
12      by \$100 billion, and somebody's securities account now has  
13      \$100 billion of those securities.

14              The wealth, nominal wealth of the private sector  
15      has not changed. Somebody transferred debt, had their bank  
16      account debited for \$100 billion and their securities  
17      account credited. Instead of having \$100 billion in  
18      balances at the Fed, they have \$100 billion in T bills.  
19      Nothing's changed yet.

20              Now, the Treasury takes that money and spends it.  
21      What does that mean? We've got the \$100 billion back. So  
22      the net result of borrowing \$100 billion and spending it is  
23      the balances are exactly the same in the private sector,

1 but there's an additional \$100 billion of Treasury  
2 securities out there. And that constitutes the net nominal  
3 wealth of the private sector, because everywhere else, it's  
4 loans equals deposits, again to the penny, that someone has  
5 to find an arithmetic mistake, assets and liabilities. The  
6 net nominal wealth is always equal to Treasury securities  
7 outstanding, reserves at the Fed and cash in circulation.  
8 Again, these are just fundamental accountings of  
9 macroeconomics. We're trying to bring this discussion back  
10 to the fundamentals that have somehow gotten lost. They  
11 give a very different picture of what's happening.

12 The two issues of sustainability and solvency are  
13 not issues. And that's where all the attention goes, and  
14 it's diverting the real attention from how this spending  
15 over time will have effects on inflation, and there of  
16 course we're, and so what's happened is that 100 percent of  
17 our resources are going into an issue that's of no  
18 consequence, where zero percent of our resources are going  
19 into the side where it could be of some consequence. Thank  
20 you.

21 MR. ALLEN: I have a question, but let me go  
22 ahead and open it up for board members. Jim, then David.

23 MR. PATTON: I think your point about focus on



1 the Nation versus the Government is a good one. And it is  
2 true that in our objective we talked about the condition of  
3 the Nation and the Government. I think practically we have  
4 focused more on the condition of the Government. If that's  
5 right, how does that affect some of our comments?

6 MR. GALBRAITH: Well, it seems to me it's  
7 appropriate to focus on the condition of the Nation,  
8 particularly when dealing with transfer programs. Because  
9 as I said a minute ago, the liabilities for the Social  
10 Security benefits are simply a counterpart of the wealth,  
11 Social Security wealth. Corresponding, the assets of  
12 expected tax revenues are simply corresponding liabilities  
13 of the working population. So that once one becomes clear  
14 about that, a lot of the drama associated with these very  
15 [indiscernible] numbers and with a kind of [indiscernible]  
16 I think an unnecessary degree of fright in the general  
17 population when trillions of dollars are associated with  
18 phrases like unfunded liability would tend to be  
19 dissipated. And that would be a good thing because it  
20 would enable us to discuss these issues in a much less  
21 politically inflamed environment.

22 MR. TORREGROSE: I'm from the Congressional  
23 Budget Office. I guess we would agree that health care

1 cannot rise forever at 2 and a half percent above growth  
2 rates. But we do long-term projections that show various  
3 sensitivities. But under most scenarios, CBO still  
4 concludes that we have an unsustainable fiscal path. And  
5 by that we mean that the Federal debt will grow faster than  
6 the economy in the long run.

7 I think this goes to your first principles, I  
8 will take this directly from a long-term report,  
9 substantial budget deficits would reduce national savings,  
10 which you agree with, or Government savings, would reduce  
11 national savings, which would lead to an increase in  
12 borrowing from abroad and lower levels of domestic  
13 investment that would in turn constrain income growth in  
14 the United States. In the extreme, deficits could  
15 seriously harm the economy.

16 Now, I think it's important to put the fiscal gap  
17 in terms of expected GDP, so that the numbers don't leap  
18 out without context. But the idea that a fiscal gap shows  
19 that some debt is sustainable over time, but not a rising  
20 level of debt.

21 MR. MOSLER: How do you define sustainable? Does  
22 that mean when the Government goes to make a payment the  
23 guy's going to get an electric shock when he tries to --

1           MR. TORREGROSE: The definition here is  
2     sustainable in terms of not having a negative impact on the  
3     economy, which is the big question.

4           MR. GALBRAITH: Well, let's talk a little bit  
5     about the CBO model. Because I suspect the difficulty here  
6     lies in fixing certain terms of the model, while allowing  
7     others to grow. That is to say, what you're doing is  
8     you've got this assumption about, which is based in recent  
9     history of the rising share of health costs and GDP. And  
10    you're trying to force that into a long-term economic  
11    outlook in which you've got a real growth rate governed by  
12    productivity growth and an inflation rate govern red by I'm  
13    not sure what.

14           But I would argue that if you got a problem with  
15    health care costs rising more rapidly that it's going to be  
16    translated into a higher inflation rate so that your model  
17    is not consistent in that sense. A higher inflation rate  
18    does mean that GDP will rise more rapidly and the debt to  
19    GDP ratio will tend to rise less rapidly than you're  
20    projecting. So in some sense, the problem that we've, I  
21    certainly concede, is a potentially serious problem.  
22    You've got some engine that is going to generate, you  
23    genuinely thing you've got some engine that's going to

1 generate a higher than tolerable rate of inflation, that's  
2 the terms in which you should be addressing this problem.  
3 It is not sensible to say that something's going to happen  
4 that's going to cause the rest of the world to refuse to  
5 accept payments in dollars, or for that matter, the  
6 American citizenry to refuse to accept payments in dollars,  
7 except possibly through that mechanism. It has happened in  
8 history, in 1923 in Germany, for example. But I don't  
9 think we're anything, in your projections, looking at  
10 anything quite that severe.

11 MR. TORREGROSE: I certainly hope not.

12 MR. MOSLER: And if you're going to define  
13 sustainability as that, I would just use those words, the  
14 word sustainability, insolvency and implications for  
15 readers that there's going to be some kind of default and  
16 that's why it's not sustainable. It's going to come to an  
17 end. And the end isn't going to be the inflation rate's  
18 going to go up or we're not going to have enough food  
19 because there's too many health care workers.

20 MR. ALLEN: Let me broadly ask a question. As I  
21 read the letter that you sent to us, I thought there were a  
22 number of excellent points. And I thought, okay, how could  
23 we deal with that, and onto the next issue where you raise

1 the point. I concluded, and as I listen to you today, I'm  
2 struggling to say, my initial question would have been,  
3 okay, well, how can we deal with that in our sustainability  
4 report.

5 But I suspect what you're saying today is that  
6 we're not telling you to correct your report, we're telling  
7 you the whole concept of what you're trying to gather is  
8 wrong, it's sort of a misdirected effort on our part. Am I  
9 reading too much into that? Like I said, I was hoping to  
10 be able to correct this. But I think you're saying, do  
11 something else.

12 MR. GALBRAITH: Let me suggest some useful things  
13 you could focus on in your discussions. I tried to  
14 highlight them in my summary. If you could get your minds  
15 around this particular distinction that we were talking  
16 about between the Nation and the Government and deal with  
17 that question, if you could put assets alongside  
18 liabilities, and the concept of a balance sheet, which is  
19 the term everybody has been using around the table, as  
20 opposed to financial statement, which is again something  
21 whose meaning I'm not entirely sure of.

22 If you could deal with the question of what is a  
23 budgetary resource, that seems to me a phrase which is very

1       imprecisely defined. And if it means, again, tax revenues,  
2       you've got a problem that the tax revenues never need to be  
3       adequate to cover spending and never will be to be  
4       adequate, because the Government has the capacity to  
5       increase its net debt over time, if you're talking about  
6       taxes plus borrowing, then, as again you were earlier this  
7       morning, it's appropriate then to ask the question what do  
8       you know about the Government's capacity to borrow.

9               So those issue all seem to me to be questions  
10       which can be raised form within the framework of what  
11       you're doing. I think that once you push those lines of  
12       argument sufficiently forward, you'll run into some more  
13       difficulties. But that would be at least a constructive  
14       way of looking within the exposures drafts as they are  
15       [indiscernible].

16              MR. ALLEN: Okay, thank you. Nancy, and somebody  
17       else --

18              MS. FLEETWOOD: I might get killed with my  
19       question, but I'll ask it anyway. I guess what I'm  
20       hearing, and again, I'm an accountant, not an economist.  
21       So when I listen to your discussion, what I'm hearing, and  
22       tell me if I'm hearing this wrong, is the way we present  
23       this thing is just unrealistic because it's not going to

1     happen that way, because something would happen, inflation  
2     or something else that would not make us get up to where  
3     GDP would be that high or the percentage of GDP would be  
4     that high.

5             I guess actually, I think even from an accounting  
6     perspective, we all agree that this is not going to happen.  
7     I guess from my perspective, the point of these, to do  
8     charts like this or projections like this is to show more  
9     of a simple reader that if things continued as they were,  
10    this unrealistic picture would happen, and so we do need to  
11    make changes. Not to make it so that we really believe  
12    that this ultimately would be there.

13            So I guess what I was thinking, take into account  
14    what you're saying, if we adjusted it for inflation or  
15    adjusted it for taxes or printing money or whatever, other  
16    things that we would do not to let this happen, I don't  
17    know that we would be showing the people anything that  
18    would be -- I guess I'm trying to figure, like Tom, I'm  
19    trying to figure how could I take into account what you're  
20    saying and adjust what you're doing. And I'm not sure I  
21    got my, I still understand. If you had the pencil and you  
22    were sitting to write what it would be, what would you want  
23    to show? What would be meaningful for us to show the

1 public as best as we could at this moment so the decision-  
2 makers could make decisions to avert whatever may be the  
3 future?

4 MR. GALBRAITH: Well, it gets to a question of  
5 what the policy priorities really are. I think there  
6 probably is agreement around this table that there is a  
7 major problem in the Country with the provision of health  
8 care, that the share of health care in GDP is larger than  
9 it is in other countries which provide perfectly adequate  
10 health care and do so to their entire population. Now,  
11 some of that in our system has to do with the fact that we  
12 use real resources to justify our accounting to provide  
13 private insurance and keep that section of the industry  
14 going that other countries simply have dispensed with by  
15 providing a universal coverage. And that is a very  
16 resource-saving activity, which has to do with the share of  
17 health care expenditures in the private rather than the  
18 public sector.

19 That seems to me to be a problem of which there's  
20 wide understanding. It's not obvious to me that these  
21 fiscal projections are constructive, because they tend to  
22 focus on Medicare. And Medicare is the portion of health  
23 care which has the least of that basically unnecessary use



1 of resources for accounting purposes. So that it strikes  
2 me that there's a problem of focus in the way in which the  
3 health care issue is addressed.

4 With respect to Social Security, there are two  
5 questions here, issues that are important to bear in mind.  
6 Insofar as we're concerned about the welfare of the elderly  
7 population now and in the future. One is that the elderly  
8 population is getting larger as a share of the total. So  
9 how we, the resources that we use to maintain them are  
10 going to grow as a share of GDP. And if they grow just 6  
11 and a half percent of GDP and Social Security, it's not the  
12 end of the world, that still leaves 93 and a half percent  
13 of GDP in other channels. And those are, that's a valuable  
14 population, it's a population which has contributed through  
15 their entire working life and has every reason to expect  
16 that it will get a modest and reasonable retirement safety  
17 net from the Social Security system.

18 But the other thing I would bear in mind about  
19 that is that as we speak, in the present crisis, for the  
20 population that is now elderly or about to become elderly,  
21 so much of what we expected as a Country to them is clearly  
22 not going to be. The value of their houses has fallen, in  
23 some cases by over half. The value of their holdings in

1 the stock market has fallen by half or more, and we have no  
2 assurance that it will recover, that it will recover for  
3 this generation of elderly.

4 And a third way, to the extent that they have  
5 cash holdings, in this environment of very, very low  
6 interest rates, the income that they can get on their cash  
7 holdings has fallen very, very shortly. So the elderly are  
8 under a terrific financial squeeze. And to compound that  
9 squeeze by threatening the future value of Social Security  
10 benefits strikes me as really piling it on to a very  
11 vulnerable population.

12 And so it seems to me that one needs to be  
13 conscious about the way in which the framing of these  
14 issues drives the debate the focus on the so-called Social  
15 Security and Medicare entitlement question, when really  
16 what we have here is in Social Security, a program which  
17 effectively keeps a large portion of the elderly population  
18 out of dire poverty, has done so for decades. And in  
19 Medicare, we have the part of the health care system which  
20 actually in many ways consumes, besides the fact that it's  
21 dealing with the elderly population who are per se more  
22 expensive to deal with, but consumes per unit of health  
23 care probably less than much of the rest of the health care

1 system, and is not by itself the size just of the health  
2 care issue, in other words, when you have to do the amount  
3 of care that we provide and the fact that we provide it  
4 very inefficiently by allowing chronic conditions to  
5 develop amongst uncovered people who then come into  
6 Medicare as expensive cases.

7 MS. FLEETWOOD: So you're kind of seeing this,  
8 the way this is going to be, just making sure I'm  
9 understanding you, that this is alarming, that presenting  
10 it in this way is somehow going to cause, like you said,  
11 adding on, I take that to mean that it's going to give a  
12 message that isn't a message that you think ought to be  
13 given out?

14 MR. GALBRAITH: That's right. I think it  
15 distorts the policy debate and I think it is unnecessarily  
16 alarming. It's through a glass darkly, if you like, and  
17 it's raising questions in people's minds about issues that  
18 are connected loosely to real concerns over the structure  
19 of our health care system in particular, but in ways which  
20 will tend to drive the discussion away rather than toward  
21 measures that would actually make their lives better and  
22 deliver health care to them at a lower cost.

23 MR. ALLEN: John?

1           MR. FARRELL: I'm afraid my question is going to  
2       disclose the grade I earned in economics in college. But  
3       if the real concern that you're speaking of here is  
4       devaluation of the dollar or inflation or real terms of  
5       trade within a country, if those are the things we as a  
6       Country should be worried about, and some of our policies  
7       are driving those things in the wrong direction, how do we  
8       then as a board who's proposing on preparing financial  
9       statements to help people understand that, how do we get at  
10      those metrics if that's what we're supposed to be doing, as  
11      opposed to some other things we are doing? Have I missed  
12      this point?

13           MR. MOSLER: No, and I'd say that's exactly our  
14      point, that there are no resources going in that direction,  
15      there have been no studies commissioned in those  
16      directions. They've all gone into other directions.

17           Just to add quickly, on the previous question, if  
18      you look at Japan, with a GDP of over 100 percent,  
19      downgraded below Botswana, and their securities, three  
20      month bills go through at zero percent and 10-year notes at  
21      1.3 percent. Clearly these are not, these concerns,  
22      there's more going on. It's not about creditworthiness,  
23      it's not about somebody willing to buy your debt.

1 All these countries, Turkey would have gone out  
2 of, defaulted long ago. They issue quadrillions of lire of  
3 securities every week. They don't even have calculators  
4 that go up that high. So it's got nothing to do with the  
5 normal concerns. And yet, you're exactly right, and that's  
6 what we're trying to do, I think. Go ahead, you can  
7 elaborate on that.

8 MR. GALBRAITH: Just to take another hat out of  
9 my background, I have served as an advisor to, of all  
10 places, the government of China, so I have some sense of  
11 their, the place that financial policy plays in their, the  
12 architecture of their development strategy. It plays a  
13 very secondary role. And I think it would be useful to  
14 devote some resources to attempting to understand what  
15 drives the foreign sector to hold or to not hold U.S.  
16 Government [indiscernible] assets and why, just for  
17 example, what happened in the last four months. We've had  
18 a sharp rise in the dollar. The pound has dropped and  
19 perhaps heading toward parity, the Euro has dropped  
20 sharply. The Swiss franc, very fragile.

21 Why is this happening? Why was there a flight to  
22 the dollar and to U.S. dollar-denominating securities just  
23 a moment when a financial crisis was hitting that actually

1 originated in the deregulation of the housing finance  
2 sector of the United States? I don't think that that  
3 question has been asked in official circles in Washington,  
4 and I think the answer to that question would give us some  
5 real insight into these matters of just to what extent and  
6 to what degree of the U.S. Treasury's borrowings, long-term  
7 borrowings at the current rate, 3 percent or so over 10  
8 years, is, are sustainable.

9 We haven't studied the question. Until we've  
10 studied it as a group and as an official community, I don't  
11 think we're going to have, we're going to be, reduced to  
12 caricatures about the intentions of foreign entities who in  
13 fact we don't, we could in fact I think know a great deal  
14 more about what they are than we do. It's not difficult to  
15 find out what the Chinese are thinking, you only need to  
16 ask them.

17 MR. MOSLER: And in terms of concern over whether  
18 or not they will buy our securities, I've been in these  
19 financial markets for years. And I can tell you, they'll  
20 get sold to the second highest bidder, which is one basis  
21 point higher in yield, or maybe two, especially in the  
22 short end. Maybe not even that. And in the long end, of  
23 course, that's, they're not operating along that for the

1 most part. But the worst thing that happens is that it  
2 affects the yield curve a little bit. It's certainly not  
3 our concern for political purpose like it's been made out  
4 to be.

5 And the term national savings, I just want to go  
6 back to that just briefly, because it was mentioned, that's  
7 a gold standard term that was used to determine what  
8 foreign claims were on our gold supply. It's basically  
9 equal to the trade deficit. It's just not applicable with  
10 today's non-convertible currency, where the only thing you  
11 can get for a \$10 bill is two fives at the Government.

12 [Laughter.]

13 MR. MOSLER: It's not an applicable term to use.

14 MR. ALLEN: Jeannette, let me let you ask the  
15 last question and we do need to wrap up.

16 MS. FRANZEL: I'll preface this by saying I'm an  
17 accountant, and I just want to make sure I'm not  
18 misunderstanding the main point you're trying to make.  
19 Because when I think about how financial statements are  
20 used in the private sector, and given the state of the  
21 stock market, this is probably a really bad example right  
22 now, but I'm going to use it anyway, you know, the  
23 accountants prepare the financial statements and they're

1 audited and that's really used as a starting point for  
2 objective, neutral, fact-based information with proper  
3 disclosures. And that's a starting point for some of the  
4 financial analysts and others who are taking a look at that  
5 data, they're making some adjustments, they're looking at  
6 the broad, overall economic context, the industry  
7 conditions, et cetera. And then really making  
8 recommendations about the future of the company.

9 I'm kind of thinking that the point here would be  
10 somewhat parallel that these financial statements should  
11 provide some good, neutral, objective information with  
12 proper disclosures. That would really be a starting point  
13 for the economists to take a look at the current scenario,  
14 the economic situation, the international situation and so  
15 on, to then do much of the analysis that you all have been  
16 alluding to today. I can't fathom how we would put that  
17 analysis into financial statements, but rather use the  
18 financial statements as the starting point for that type of  
19 economic analysis.

20 MR. MOSLER: Right. They would be, the structure  
21 would be useful for that type of analysis, yes, for public  
22 purpose.

23 MR. ALLEN: If you were going to comment, and



1 I'll ask you to do that in writing, if that's okay. What  
2 we have, how it could best meet the goals that Jeannette  
3 laid out. In other words, if we go ahead with the project,  
4 what ought we to provide some additional information that  
5 would help in the analysis that you're talking about after  
6 the issues that you've identified as --

7 MR. MOSLER: I'd say you line it up as to what  
8 you expect it might do for aggregate demand going into the  
9 future and for distribution. Distributional issues into  
10 the future, rather than solvency and sustainability. I  
11 would look at aggregate demand and distribution  
12 [indiscernible].

13 MR. GALBRAITH: I think that's right, but I also  
14 think that just from an accounting standpoint, a financial  
15 statement, to be clear and useful, should have all of its  
16 terms very carefully and precisely defined, and if the term  
17 financial statement was not clearly defined, was not  
18 clearly a balance sheet [indiscernible] the assets, the  
19 question of budgetary resources is not clearly defined.  
20 And you think about it, the focus of the policy changes.  
21 And there were several other points that I made in my  
22 statement that would bear very careful consideration as you  
23 move forward.

1           MR. ALLEN: Thank you very much. We appreciate  
2     that.

3           Stephen? Thank you very much. Again, I was, can  
4     I just assume that you will respond to written questions we  
5     have?

6           MR. MOSLER: Yes, and if anybody wants to contact  
7     me personally or whatever, I'd be more than happy, e-mail,  
8     I'll leave a card her.

9           MR. ALLEN: We've got your e-mail address in our  
10    briefing materials.

11          MR. MOSLER: Feel free.

12          MR. ALLEN: Thank you.

13          Stephen, can I ask you the same thing as with Mr.  
14    Walker, to maybe in your comments focus first on the  
15    projection project? I realize it will sort of spill over,  
16    but let's try to be [indiscernible].

17          MR. GOSS: Sustainability [indiscernible] perfect  
18    [indiscernible] focusing [indiscernible]. Let me first  
19    start by saying that I've had the great pleasure of knowing  
20    a number of people here at the table for more than just a  
21    few years. It's actually more like decades. It's been a  
22    lot of fun.

23          MR. ALLEN: That's a downside. That means we've

1       talked about this project way too long.

2                       [Laughter.]

3               MR. GOSS: Well, no, because my point is that at  
4       this moment, at this time, I think the relevance and the  
5       importance of what you are about, what we are all about  
6       collectively, has ascended, has become much more important  
7       by the recent [indiscernible] situation with the economy,  
8       but the rhetoric in the discussion that there has been  
9       today and for many days, for several years now. I think  
10      the importance of what you all have focused on in both of  
11      these exposures drafts, which is the essential necessity of  
12      the simplicity and being direct and getting to the points  
13      that can connect to the American people and the policy-  
14      makers can make a difference to help them understand what  
15      really is relevant, what's really meaningful from what they  
16      really have to get at to understand what kinds of changes  
17      may or may not be necessary in the future. I applaud your  
18      efforts on this, I think it's not greatly different from  
19      what you've done in the past, but I think the focus has  
20      been much keener on the idea of simplicity and getting a  
21      little bit at the point.

22                   And that really is, I guess, what I'm about,  
23      about the couple of comments that I'd like to make to you

1       today on these two topics. I'm only an actuary, and  
2       actuaries, like accountants, tend to know just enough  
3       economics to be dangerous. But fortunately, not quite as  
4       dangerous as real economists.

5               [Laughter.]

6               MR. GOSS: So economics is something of what we  
7       do, but my thinking on this is a little bit narrower. I  
8       think it's a little bit more in the context of what you are  
9       trying to accomplish. I have some understanding, as I  
10      think you all do and I think all of us do, that there are  
11      lots of perspectives and lots of ways we could look at all  
12      these issues and it's fun to do so. I have this view that  
13      in fact we live in a pay-go world, and [indiscernible]  
14      advance funding almost anything from a national economic  
15      point of view doesn't really have relevance.

16              But rather than going into that, and that was a  
17      topic, part of our discussion and I think that was a very  
18      good one, I'd like to be a little bit sort of more narrowly  
19      focused on specifically what you [indiscernible] for in  
20      your exposure drafts, which is the place and is the  
21      opportunity where you're going to have impact on what  
22      policy-makers and the American people see.

23              Okay, so starting off with fiscal sustainability,

1 and I hope you'll allow me to refer to it as that other  
2 than the [indiscernible] long-term projection, et cetera,  
3 et cetera. Because that is the way that you all paraphrase  
4 it, and to me, that is really the gist of what you're  
5 getting at here and what you're trying to convey, so people  
6 will understand.

7           When we're talking about fiscal sustainability  
8 for the Government as a whole, not just Social Security,  
9 where I tend to look most of the time, this concept has  
10 obviously enormous applicability and enormous value,  
11 otherwise you wouldn't be paying attention to it. But only  
12 if it's done effectively, only if it's done simply and only  
13 if it's done in a way that people connect with it and  
14 understand it and know what we're talking about and it  
15 really has relevance.

16           In order to do that, I think we have to be very  
17 careful about defining what it is that we're trying to  
18 achieve, and therefore what we're trying to achieve and  
19 then sustain. And sustainability means you're sustaining  
20 something, what is it we're trying to sustain. We've had a  
21 lot of discussion about the idea of is it solvency, is it  
22 something else. My sense is that what you really have to  
23 do, and I think you really touched on this well, but you

1 touched on a number of things. I guess my hope here is to  
2 try to push a little bit towards emphasis in some areas  
3 more than others.

4 Sustainability, it seems to me that there are two  
5 aspects of sustainability that are really essential in  
6 achieving something and maintaining it. And we have to pay  
7 attention to the timing of the actions that are occurring  
8 from the trend in what is happening. Looking at sort of a  
9 summary statistics of something over a very long period of  
10 time fails on both those counts. And as a purveyor of 75  
11 year numbers and of infinite horizon aggregate numbers, we  
12 do those calculations, as you all know. I'm here to tell  
13 you that from the point of view of what you want to put  
14 forth, and what I think our trustees want to put forth,  
15 that's not the right place to be. Those are not the  
16 numbers that are going to connect and are really going to  
17 make a difference.

18 What can really make a difference, I think, is on  
19 sustainability, two things. One is to say, well, what is  
20 it we're trying to show what we can do. And the gentlemen  
21 in the prior panel I think were right on the count of  
22 saying that it's about distribution and it's about how much  
23 of what needs to be done for the elderly for health,

1       whatever will the Government be doing. And if we simply  
2       look on a year by year basis into the future, what the  
3       projected expenditures, obligations, whatever we want to  
4       call those, would be expected to be in a number of future  
5       years, every tenth year, whatever, taking it out for a  
6       period of time, see what those represent as a percentage of  
7       GDP for the various programs and combined for the Federal  
8       Government. That will give us a sense of what our  
9       expectation is of what the cost of these things will be.

10               Now, does that answer whether or not they're  
11       sustainable? Well, if you start exceeding 100 percent of  
12       GDP, we'll all agree right away that's probably not  
13       sustainable. But if they go from 10 percent to 15 percent  
14       or 20 percent of GDP, is that not sustainable?

15               Well, I would suggest that the job of the  
16       reporting entities, OMB, CBO, GAO, Treasury, and the  
17       guidance that you all provide, is not really to say that  
18       going from 20 percent to 30 percent, as David Walker  
19       characterized it, is unsustainable. Because really what's  
20       sustainable is what the American people want the Government  
21       to do. If 40 years from now a different group of citizens  
22       than we have that are of our age today decide that they  
23       think 30 percent of GDP for the then much larger elderly

1 population, perhaps larger disabled population, they think  
2 it is appropriate to expend 30 percent of GDP at that time  
3 through the Government for the kind of services that they  
4 now spend 20 percent of GDP for, who are we to sit here  
5 today and say that that is not possible, that it is  
6 unsustainable to go there?

7           The audacity of that, and this is not an  
8 audacious group. So what I would suggest, really, is that  
9 what would be really useful is to make sure and force the  
10 Government entities, as I think you all are all about, to  
11 portray what the timing and trend of expected future  
12 expenditures will be in the future on a first order basis  
13 for the various programs under something like current  
14 policy, and I hope to address that in a moment, on certain  
15 first order items. Just what is the expectation of what  
16 the cost of these will be.

17           The second order question is, I guess, the  
18 question, are we sustainable in terms of, do we have  
19 scheduled enough financing to be able to pay for these  
20 commitments, these obligations, these expectations, these  
21 intents, really, of expenditure in the future. In the  
22 areas of some programs like Social Security and Medicare  
23 Part A, the HI Trust Fund, this is reasonably well-defined,



1 because there are limits on how much spending can occur.  
2 So we can actually say what the expenditures are expected  
3 to be, what the obligations are, and we can actually put in  
4 what the scheduled revenues are for the payroll taxes and  
5 we can compare those.

6 For the rest of Government, this gets to be a lot  
7 trickier in terms of sustainability. This is where I think  
8 I would just put a note of caution about talking about the  
9 Federal Government as a whole. There's been a rush toward  
10 saying that entitlements are the whole problem, and the  
11 rush toward entitlements are the whole problem is based on  
12 what? It's based on our ability, perhaps unfortunately,  
13 but our ability to project out what the expected  
14 obligations under Social Security and Medicare are, with  
15 big increases in excess health costs, with big increases in  
16 the number of elderly population relative to working age  
17 population. We can project out what these costs will look  
18 like as a percentage of GDP. And these look like they rise  
19 pretty rapidly relative to what the tax base would be,  
20 given the number of workers.

21 On the other side of the ledger, the non-  
22 entitlement side, though, what do we have? We have the  
23 other expenditures of Government, which we tend to, I would

1 say rather blithely, projecting the future of  
2 [indiscernible], whatever share of GDP they are now, we'll  
3 just keep it that share of GDP. Tax revenues may be the  
4 more interesting way we look at personal income tax, and we  
5 say, well, what share are they of GDP right now. Well,  
6 we'll just give them the same share of GDP in the future.

7 Now, it seems to me there's a bit of a disconnect  
8 there. Because while on the side of Social Security and  
9 Medicare we reflect the expectation and what the law  
10 prescribes in terms of having benefits with a fixed  
11 retirement age going to more and more people, with a wage  
12 index system we show what these will be.

13 On the tax side, for personal income tax, we  
14 actually have in the law a provision that says that the  
15 marginal tax brackets will go up with CPI. Marginal tax  
16 brackets going up with CPI means there is still some, not  
17 as much as there once was, but there are still some bracket  
18 free. The average personal income tax rate will rise.  
19 Eventually, we're all in the 36 percent or whatever the top  
20 bracket is. Because if we move the brackets up only with  
21 CPI and there's real growth in our [indiscernible] income,  
22 eventually relative to the average [indiscernible] level,  
23 the brackets shrink and we all move to the top bracket.

1           So to project that the income tax revenues are a  
2   flat percentage of GDP, while we show the cost of  
3   entitlements rising with the law, it seems to me there's a  
4   disconnect and there's an inconsistency. So all I would  
5   really request is that in putting forth these numbers going  
6   out into the distant future that there be a consistency  
7   here. I think that is a bit of a challenge, because we're  
8   talking about current policy, current policy, current law.  
9   The exposure draft did a really good job of putting forth  
10  some of the issues here.

11           But I think it's something you really have to  
12  wrestle with to make sure there's a balance here that you  
13  don't in effect have a bias, albeit wholly unintended I'm  
14  sure, a bias towards having the highest imaginable look at  
15  what the costs could be, but really holding down, even  
16  relative to the current law, what the revenues would be.  
17  And I think that's unintended, I don't think anybody's  
18  intended that. But there's a tendency to be there, and I  
19  think that's something we need to pay attention to.

20           The other point that I guess I would make about  
21  this particular area is the idea of the generational equity  
22  question. And the generational, trying to look at these  
23  numbers in an intergenerational fashion, which we do in the

1 [indiscernible] and a lot of people like to look at things  
2 on a generational basis, this seems to me to be very, very  
3 problematic. It's not just from the point of view of oh,  
4 we worry about pitting one generation against another. But  
5 when you think about generational issues, gee, each  
6 generation kind of decides what their kids' obligations are  
7 going to be toward paying for things in the future really  
8 by how many kids they have. Perhaps by immigration policy,  
9 too. That comes into play.

10 But the younger generation, as we've had during  
11 post World War II, where people had 3.3 children, versus  
12 what we've had since about 1980, where we've had about 2  
13 children, that's laying down the marker. If we're going to  
14 have only 2 children for every couple versus 3.3 children,  
15 we're going to be fewer people to be generating the GDP  
16 upon which everything we've spent and everything we do will  
17 be based.

18 So the cost of providing Government services and  
19 private pensions, of providing anything you want to think  
20 about, this isn't just Government, of providing anything  
21 when we have a higher ratio of aged and/or disabled to  
22 working age population is going to be greater to provide  
23 any kinds of benefits [indiscernible] otherwise at a given

1 level. All that really means is that we go into the future  
2 with a simple, and this is where actuaries, this is the  
3 other half we know just enough to be dangerous, about  
4 demographics, when we look out we see this aged dependency  
5 ratio that you all are very familiar with. I think it's in  
6 the FASAB standards and we've got it in financial  
7 statements, we've got it in the trustee's reports. This  
8 pretty much really tells the story about where we're going  
9 in the future in terms of the level of pain, the level of  
10 cost that we're going to have to be bearing in future  
11 burdens.

12 And to describe this, though, as there's an  
13 unfair generational inequity, by future generations will  
14 have to pay more because they happen to be of a smaller  
15 birth cohort, I guess my question is, what is really the  
16 point of that? Should we tell them that because your  
17 parents decided to have fewer children that you have been  
18 treated unfairly? The bottom line is, get a life. It is  
19 what it is. We are at a point now of having 2 children per  
20 woman born in this Country. Actually, we should be quite  
21 happy about that, compared to most of Europe and Japan,  
22 where 1.5 times what they are, and a lot of them are, you  
23 know, Italy, Japan, they're at about 1.2 children per

1 woman, we're at 2. So we're still at a replacement level,  
2 which means that our ability to be able to pay for things  
3 in the future with our workforce is going to be much better  
4 than many other countries.

5 So I think the intergenerational aspect of this  
6 really comes down to the demographics and to emphasize that  
7 it looks like there's going to be an inequality and an  
8 unfairness, and therefore a necessity to reduce the level  
9 of benefits we're spending on the elderly in the future,  
10 because it looks like it's generationally unfair I think is  
11 wrong. I think we have to be more balanced, we should be  
12 more balanced [indiscernible] and be honest and say, you  
13 know what, if you want to provide the same level of  
14 benefits, sort of like a replacement for Social Security or  
15 in terms of what's possible for health care, to future  
16 generations of retirees, it's going to cost a bigger share  
17 of GDP. That's the one possibility.

18 The other extreme is say, you know, all these  
19 people are right, 20 percent of GDP is what we generally  
20 paid in the past and like the speed of light, like pi, like  
21 other constants of nature, 20 percent is it, that's what  
22 this Country is going to do, Germany and France and Japan  
23 haven't gotten the memo on that one. But maybe in the

1 United States if this is a constant of nature we will  
2 always be at 20 percent of GDP. If in fact that is the  
3 case, and that I would suggest is not really our decision  
4 to make, I think future generations, some of the younger  
5 people around this table that are not here at this table  
6 will be making those decisions decades in the future. But  
7 if 20 percent is where we end up staying, clearly, then,  
8 the expenditures will have to come down. There's no  
9 question about that.

10 That's a big debate that's going to have to  
11 happen in the future. I would suggest that your job is to  
12 instruct we at the Federal entities to lay out clearly  
13 what, under the current policy, under the current law, the  
14 expenditures will be and not really to be proscriptive  
15 about saying what is possible and what is not possible.  
16 Well, unless it starts going above 100 percent of GDP, in  
17 which case [indiscernible] have some real problems.

18 There was one comment that was made earlier about  
19 whether or not we should in the overall Federal Government  
20 document in [indiscernible] the trustees reports get into  
21 what should be done, what can be done to fix the problem,  
22 to fix any financing shortfalls that we have. David spoke  
23 to this. We do have in our trustees reports, as many of

1 you are very well aware, some indications of while the  
2 shortfalls that we have for Social Security could be fixed  
3 if we add like a 1.7 percent increase in the payroll tax  
4 starting right now and forever, these are not intended in  
5 any way, shape or form to be policy prescriptions. Nobody  
6 in the world is talking about having a payroll tax rate  
7 increase of 1.7 right now. All that would do is build up  
8 our trust funds for another 20 years to much, much higher  
9 levels. Folks on the prior panel would, so what. And to a  
10 great extent that is really kind of true.

11 And I would just put it in these frames. If  
12 right now we were to pay attention to some of these things,  
13 about \$56 trillion, or the \$4.3 trillion that Social  
14 Security is supposed to be having this [indiscernible]  
15 shortfall over the next 75 years, and the Treasury right  
16 now were to say, we're going to write you a check, we're  
17 going to put it in the Trust fund, the \$4.3 trillion, okay,  
18 all of a sudden we don't have a solvency problem 75 years  
19 into the future in Social Security. Is that meaningful? I  
20 would suggest that that's not meaningful at all.

21 Because what the real truth of it is, that we  
22 have payroll taxes that we can project, in a sustainability  
23 presentation of the type that you are talking about, what



1 we do in the [indiscernible] report, we can show on a year  
2 by year basis what the payroll taxes are looking like. We  
3 can show on a year by year basis what the benefit  
4 obligations are looking like. And we can see what the  
5 difference is between those.

6 At the point where the benefit obligations start  
7 to exceed the taxes, especially if we run out of Trust Fund  
8 revenue, but even not, we know that we then have revenue  
9 over and above what the taxes scheduled will have to be.  
10 We're going to have to either generate that extra money by  
11 borrowing or by additional taxes or cutting some other  
12 spending. Or by cutting the Social Security benefit. I'm  
13 showing you what this looks like on a year by year basis,  
14 it shows the timing of when these deficits will show up.  
15 It shows, more importantly, I think, what will be the trend  
16 of them. And unsustainability probably is if we have a  
17 substantial shortfall and it's trending toward bigger.

18 Now, the one thing I really did want to comment  
19 about what was in the sustainability report. I know that  
20 the normal budget accounting is where clearly you include  
21 in your expenditures interest. This I think becomes a  
22 very, very dicey issue in a longer-term projection for the  
23 matter where you're projecting under current policy

1 significant and maybe even rising differences in the cash  
2 flow balances, where your expenditures are projected to be  
3 in excess of what your tax revenues are going to be.

4 In a world like that, your borrowing can blow up.  
5 They can start building [indiscernible] up, they can go to  
6 infinite proportions. If you start projecting that and  
7 taking that seriously, then you of course end up with the  
8 interest load blowing up and becoming enormous. If you  
9 actually produce a graph, as something was included in the  
10 exposure draft, the interest load, when you get out after  
11 some decades, can start to dwarf the level of expenditures  
12 and the level of tax income. And the question I would have  
13 is, does this pass the simplicity test? Does this pass the  
14 test of what you really need to convey to people?

15 Because remember, the interest, like in year  
16 2060, is just a matter of how much of an extra debt burden  
17 we could build up from all the shortfalls between now and  
18 then. And it's just a reflection of that big, aggregate  
19 build-up. From a point of view of sustainability, I would  
20 suggest the question is, can you run those kinds of  
21 deficits to build that kind of debt up that far. The  
22 gentlemen in the prior panel were saying, well, maybe  
23 [indiscernible]. I think in the kind of framework that

1 most of us think of, we think of yes, the debt to GDP and I  
2 [indiscernible] if 100 percent is being a target or short  
3 of a limit, makes a lot of sense to be thinking in those  
4 terms.

5 But to be portraying graphs where you're showing  
6 that the interest is going to start to sort of overwhelm  
7 everything else I think takes away too much from what  
8 people's understanding of what the taxes relative to what  
9 the scheduled benefits would be under the various programs.  
10 I suggest finding a way to avoid that. In our trustees  
11 reports, what we do is we typically show really just what  
12 the tax revenue is relative to the obligations, and then in  
13 separate ways we show what the interest and what would be  
14 happening to the trust fund. So I have a little bit of  
15 trepidation about the idea of allowing the interest to just  
16 overwhelm things.

17 MR. ALLEN: Would you make comments on the  
18 sustainability or [indiscernible]. You raised some key  
19 issues, I was going to ask you off-line, if you want to  
20 provide some of that in writing to us. Because some of  
21 that is beyond even the questions that we laid out for you  
22 and what you had indicated there. But maybe from what  
23 you've said right now, we can ask some questions.

1 MS. FLEETWOOD: I just had a question, when you  
2 were saying lay it out year by year, are you really feeling  
3 that you should do net present value because that obscures  
4 it or it's hard for people to follow? You really want it  
5 laid out year by year? Is that the point you were making?  
6 I just want to make sure I understood.

7 MR. GOSS: Well, the net present value over a  
8 long period of time I think has a sort of unintended and  
9 unfortunate consequences. One is, when we talk about, what  
10 is it, \$56 trillion or quadrillion or something like that,  
11 first of all, how many one dollar bills would it take to  
12 fill this room? Would it be a trillion, would it be two  
13 trillion? I have no idea. How many people in this  
14 Country, when you say a trillion dollars, have any sense of  
15 what that means? I don't really. What is it, a thousand  
16 billion, which is a million million. It's kind of too hard  
17 to contemplate. If instead we were to portray these  
18 numbers as a percentage of GDP, for instance, over that 75  
19 year period for Social Security, that \$4.3 trillion,  
20 unfunded obligation, it represents .6 percent of GDP over  
21 the 75 year period.

22 That's maybe a little bit more tractable. That  
23 means that on average, if we captured another .6 percent of

1 GDP over the next 75 years, that would hold the gap for  
2 Social Security. Now, most people might have some concept  
3 of what that means. Think of all the goods and services  
4 that we all buy and trade in every day and every year and  
5 put 6 percent of that, if we capture that much, that would  
6 sort of fix Social Security over the next 75 years on  
7 average. Four point three trillion, I think that just goes  
8 over the top.

9 I think the real problem with that is, take these  
10 aggregate numbers over long periods of time, is they are to  
11 readily and perhaps unwittingly compared to annual flow  
12 numbers. For example, we have this year, we're going to be  
13 approach, what, a trillion dollars annual deficit, maybe  
14 more than a trillion dollars. People are talking all the  
15 time about all the entitlement programs, \$56 trillion or  
16 infinite horizon, I don't know, \$256 trillion, whatever it  
17 is. And heaven forbid we would put this in constant  
18 dollars, because then it would infinity, if we went out  
19 into the infinite future.

20 But when you start talking about numbers this  
21 enormous and this large that are impossible to comprehend,  
22 it makes some of the kinds of things that we should also be  
23 paying attention to, not really in the purview really of

1 FASAB, or what I deal with from day to day, but it  
2 diminishes the impact of talking about this year's  
3 shortfall and this year's Federal budget deficits of a  
4 trillion. I [indiscernible] just sort of an optics problem  
5 [indiscernible].

6 People have a really hard time getting their head  
7 around, I think, comparing the \$56 trillion versus this  
8 year's shortfall. And the other aspect of it too is,  
9 there's also a tendency to compare it to the publicly-held  
10 debt. The publicly-held debt is almost like a mirror image  
11 situation relative to the unfunded obligation. Publicly-  
12 held debt really is the sum total of the past cash flow  
13 actions where the unfunded obligation is sort of a  
14 differential between a projected, estimated future set of  
15 obligations.

16 So I think there's, I think we're just way better  
17 off in terms of simplicity and getting people to understand  
18 what we're talking about and to show them what the problems  
19 are, when they really would occur and what the real  
20 magnitudes are if we'd show it on a year by year basis as a  
21 percentage of GDP.

22 MR. SCHUMACHER: Can I ask a follow-up question  
23 on that? Wouldn't that point at present value lead you to

1 the trend graphs and the more information, but you'd  
2 initially get the person's attention with the present  
3 value, and then they'd ask some more questions and then  
4 they'd go to the more detailed projection?

5 MR. GOSS: I think we've done that experiment. I  
6 think we've done that experiment over the last several  
7 years. We've been talking about tens of trillions of  
8 dollars. And it hasn't worked. I would suggest, I mean,  
9 my experience in talking with people is, if you tell them  
10 about something gigantic and make it sound really big, and  
11 they don't understand it, you don't [indiscernible]. But  
12 if you're going to lay things out in a way that's  
13 relatively simple and straightforward, where you can  
14 actually show, this is how it would affect you, your kids  
15 and your grandkids and the timing of it, you've got a much  
16 better chance of affecting that. And for example, Social  
17 Security Medicare shortfall, a view I've got on this is,  
18 rather than talking about the gigantic budget deficits that  
19 will occur in the future, which are really hypothetical in  
20 some of these cases, if instead we were to say, you know  
21 what, when we hit 2019 for Medicare, or 2041 for Social  
22 Security, those programs are only going to have 78 cents,  
23 remarkably, under the [indiscernible] projections is the

1 same. Seventy-eight cents available for every scheduled  
2 dollar of benefits. And you're going to hit the wall, 78  
3 cents.

4 Now, unless the Congress does something to either  
5 trim back benefits to 78 cents, in which case we'll say  
6 we're solvent, or raises revenue by another 22 cents,  
7 that's what we're going to be facing. I think, now,  
8 admittedly, that might not [indiscernible] as immediate  
9 save in 2019 or 2021 when we're going to have these  
10 problems. That doesn't sound as immediate as saying, we  
11 have \$56 trillion today as a problem. We tried that  
12 experiment.

13 [Simultaneous conversations.]

14 MR. SCHUMACHER: This morning, Jagadeesh was  
15 talking about putting context on the balance sheet, an open  
16 group together with a closed group, for example, on the  
17 balance sheet, and that would grab your attention and leave  
18 you, perhaps, to a more detailed explanation. I wonder  
19 what your view on that would be.

20 MR. GOSS: Well, I think as people have been  
21 talking about, the balance sheet has certain purposes, and  
22 our performance and accountability report on Social  
23 Security, we have under the financial statements, we have a



1 balance sheet on one page, where we have the assets and the  
2 liabilities, and four pages later, we have the statement of  
3 social insurance where we show these open group forward-  
4 looking numbers. These are very different conceptually, I  
5 would suggest. They're both there to sort of intermingle  
6 them on the balance sheet, which has a very, very clear and  
7 present purpose to go and say it's not good enough to have  
8 them four pages later, where they stand by themselves in  
9 the context of this is forward-looking statement of social  
10 insurance, this is what we're looking at over a 75-year  
11 period. Some think it's too long, some think it's too  
12 short. Maybe it's a good compromise therefore.

13 But this is right there in the financial  
14 statement, this is something that FASAB is actually going  
15 to work with us and others in developing. I think this is  
16 an achievement to have this here. To now say that we have  
17 to sort of put them together in some sense, because four  
18 pages apart is too far, I don't really see the point. The  
19 balance sheet has a certain purpose. Unless there is an  
20 agreement, and I think there is not, that these forward-  
21 looking numbers really represent liabilities, then putting  
22 them on the balance sheet just seems out of place. These  
23 couple of pages, they're the same color and they're all in

1 the financial statements, it seems to me that this makes  
2 the point pretty effectively, we don't really need to have  
3 them on the balance sheet.

4 MR. SCHUMACHER: Allen, just very quickly to  
5 follow up on Nancy's point, you indicated that you'd like  
6 to see a year over year sort of projection as we go. When  
7 we were debating this ED, we talked about presenting five  
8 or ten year increments in terms of, rather than just 75  
9 year or an infinite horizon. What would you think about  
10 that?

11 MR. GOSS: I guess what I would suggest --

12 Mr. SCHUMACHER: If we go year by year, I can see  
13 this thing getting --

14 MR. GOSS: Well, on a graph you can do individual  
15 year. But we may be talking about slightly different  
16 things. What I'm talking about is sort of the annual  
17 flows, like in the fifth year, the tenth year, the  
18 twentieth year, the thirtieth year, the summary number that  
19 takes us up to the 50 or the summary number that takes us  
20 up to the 20<sup>th</sup> year, and so on, to actually show what the  
21 flows are, and what we'd be dealing with in selection of  
22 years. You're right, every single year would be too many,  
23 especially on a table. But on a graph with bar charts and

1 I think you have a number of these in the exposure draft  
2 that were put together very, very nicely, to show what the  
3 difference is between these.

4 I think what's really critical is not just to  
5 show the difference between the scheduled income and the  
6 scheduled out-go, but to show them separately. Because  
7 sustainability, first and foremost, I would think, would be  
8 about how much is it we're saying the Government should be  
9 laying out as a percentage of GDP and do we, the American  
10 people, want to lay out that much?

11 Now, once we've decide, once we settle upon,  
12 we're willing to pay X percent of GDP, and Social  
13 Security's at 4.3 percent now, we project at the end of 75  
14 years, it's going to be stable at 5.8 percent of GDP. The  
15 American people have decided it's going from 4.3 up to 5.8,  
16 is that too much? Maybe that's too much and they want to  
17 keep it at 4.3. But that's a decision that 535, maybe 756  
18 elected representatives will have to make. And I think our  
19 job and your job is to try to come up with the most direct,  
20 simple, eloquent way of sort of laying this out so the  
21 policy-makers actually can see this and make a good  
22 decision.

23 MR. JACKSON: Two sort of brief questions, maybe

1 one observation. You mentioned a minute ago that if the  
2 outlays begin to exceed, let's just say resources, I'm  
3 using that term, the trust fund balances plus receipts,  
4 then that would take a statutory [indiscernible]. Doesn't  
5 the statute, we talked about this before, doesn't it  
6 automatically trigger? I mean, once the 78 cents becomes  
7 the optimum amount available, doesn't the benefit  
8 automatically drop?

9 MR. GOSS: It does, and that's a really good  
10 point.

11 MR. JACKSON: You made that point in your paper.

12 MR. GOSS: And we have statutory limitations,  
13 once the trust fund, once we have no more reserves  
14 available to augment our tax revenue, then we drop down to  
15 only having 78 cents available, here's the really  
16 interesting part: there is no absolute prescription,  
17 because fortunately, we've never got there and we never  
18 expect to. There's no absolute prescription about exactly  
19 what would happen. Our general counsel at Social Security  
20 across several Administrations now has been consistent in  
21 saying if we ever hit that wall, again, pray we never do,  
22 that the commissioners at that point would be in a position  
23 to decide what exactly do we do, do we pay our 78 favorite

1 people out of 100, do we pay 78 cents out of every dollar  
2 of benefits?

3 MR. JACKSON: Well, Woody's benefits --

4 [Simultaneous conversations, laughter.]

5 MR. GOSS: Perhaps another possibility in fact I  
6 need to put in the spectrum, but a number of Latin American  
7 companies have run into this in past decades. What they  
8 tend to do, and might be the most likely prescription if  
9 ever, heaven forbid, we got there, would be to say, well,  
10 we don't have enough money here as of June to pay the  
11 benefits, but we'll continue accruals of tax revenue, by  
12 July we'll have enough money to pay the June benefits. So  
13 we'll just, you know, wait a month, we'll delay you one  
14 month.

15 After a few months of doing this, well, we're  
16 going to have to delay two months in order to pay the  
17 bills. Now, this is where you're going to have to work it  
18 out with the landlord, and this is something again that,  
19 we're into Congress, we're one of those 535 or 6 people,  
20 we're probably not going to want to have to tell our  
21 constituents about that you're going to have to start  
22 waiting a month and waiting around two months and then  
23 three months to get your full checks. That would be

1       difficult to do. But that's the world that we would  
2       actually be in.

3               And one of the points to that is that actually,  
4       under the law, as opposed to what has been sort of  
5       described in this exposure draft as current policy, those  
6       monies beyond the trust fund exhaustion actually cannot and  
7       would not be made. So I think there has to be some care  
8       made on the Social Security OHDI program and the HI program  
9       where, once the trust funds are exhausted, those  
10      expenditures can't be made. So you really don't want to  
11      call them spending per se. You can call those obligations,  
12      but you should not call them spending going forward.

13              Now, on the Medicare SMI, the Part B and D, those  
14      are prescribed by law and supposedly the general fund of  
15      the Treasury will come to the rescue and they'll provide  
16      whatever's necessary and we'll raise opinions enough to be  
17      able to pay the money. So I think that's legitimate for  
18      that spending. But I think you should be careful in these  
19      disclosures about separating between spending and  
20      obligations. I really recommend that obligations be the  
21      preferred word rather than spending.

22              MR. JACKSON: And just on the simple side, I look  
23      at this statement, I think this is the one that would be

1 the basic statement, is that right? Just to make certain  
2 that I don't mis-read, because I'm notorious for doing it.  
3 If what I'm hearing you say is that what your preference  
4 would be, these are the sum numbers, they swamp you. These  
5 right here, present value in trillions.

6 MR. GOSS: Okay. Over, summarized for over a  
7 long period of time.

8 MR. JACKSON: Oh, yes, over 75 years. Over 75  
9 years. And even North Carolina, I'm from North Carolina, I  
10 know the big numbers. And what you're proposing or  
11 suggesting is that we, putting aside the present value for  
12 the moment, that we break this down in more meaningful,  
13 say, meaningful periods. And what I was hearing you say,  
14 at least what I thought I heard you say, is that if you  
15 look at it in 10-year increments, there wouldn't be some  
16 over a 10-year period, that would be, in year one, we'd  
17 have whatever the numbers would be, let's say 2010. And in  
18 2020, you would have, I'm just going to use the term  
19 projected for the lack of a better word right now, you  
20 would have a projected, I will call it revenue receipts,  
21 and obligations for --

22 MR. GOSS: For that year.

23 MR. JACKSON: For that year. And you'd see it

1 step out, and then it becomes more intellectually  
2 absorbable by the reader.

3 MR. GOSS: Precisely. And I think that's  
4 important, because when we talk now, for instance, let's  
5 look at 2045, Social Security, where we would have hit the  
6 wall, we would have run out of assets in the trust funds,  
7 and we would have X amount of dollars of obligations that  
8 we're supposed to pay out and something much less than that  
9 in terms of revenue. We will be able to illustrate in the  
10 year 2045 how much shortfall we would have in that year,  
11 you could put in some kind of dollar forms if you want, a  
12 percentage of payroll, the way we usually do it, or a  
13 percentage of GDP, but probably be a lot more connectivity,  
14 I would think, to the average policy-maker and to the  
15 average person in the Country.

16 And if the problem is that that's not scary  
17 enough, if it sounds like 2045 is a way off, well, I  
18 apologize, but that is where the problem actually does  
19 occur. And to try to say that a problem in 2045, a  
20 shortfall, is an immediate problem that has to be funded  
21 currently, there's a risk in doing that. I think we have  
22 seen the results of taking that risk. The risk is that  
23 when people get it, when people figure out that you're not



1 sort of laying it out straight, they won't pay attention.  
2 So I'm just suggesting, so why don't we lay it out  
3 straight.

4 MR. JACKSON: Actually you need to --

5 [Simultaneous conversations.]

6 MR. ALLEN: Let me go ahead with Hal and David,  
7 and I want to follow up to what you're on after these guys  
8 get done.

9 MR. STEINBERG: On page 51, the present value for  
10 75 years, I just wanted to confirm that, I think I'm  
11 agreeing with what Woody's understanding is, is that it's  
12 closer to page 57, although this is a graph you perhaps  
13 would talk about it in terms of maybe a table with the  
14 numbers. But basically, every 10 years, or the way you put  
15 it earlier, expenditures that the American people want the  
16 Government to do, whether it be old age insurance or health  
17 insurance or national defense, what have you, you would  
18 show the shortfalls at that point in time, because you  
19 think that's what would drive the politicians. It's hard  
20 to get them to fund something that they don't think will  
21 happen until 45 years from now.

22 MR. GOSS: I think the motivation for showing  
23 these summary numbers, which say \$56 trillion or \$4

1 trillion for Social Security, has been to make it sound  
2 more immediate and it is true that when we have large  
3 problems that are in the future, there's no time like the  
4 present to be planning for it and to start to get people  
5 thinking about it to make changes.

6 But my fear is that if we make it sound, by for  
7 instance, taking trillions of dollars and dividing it by  
8 the number of workers today and saying it's like a mortgage  
9 that people are holding today. Well, it's not. It's  
10 nothing like a mortgage. It's not something that people  
11 have expended today and today's workers have an obligation  
12 to pay for this. The money that we will need in 2041 and  
13 starting in 2019 for Medicare in excess of the expected tax  
14 revenue is money that at that time will have to be  
15 generated.

16 Now, we can pass a law tomorrow and it would be  
17 wonderful if we passed a law tomorrow prescribing how it is  
18 we're going to either reduce benefit levels in these  
19 programs or raise revenues at that point in time. It would  
20 be wonderful to do that, and give people advance notice and  
21 warning of what we will be doing as a Nation in order to  
22 fulfill these obligations or to lessen them.

23 But to say that in fact we're going to do

1 something by way of putting \$56 trillion in the bank right  
2 now, and that really would be meaningless, because the core  
3 question we would have to ask then is, \$56 trillion in the  
4 bank now, when we actually go to take that money out of the  
5 bank in 2041 or in 2019, what would the implications of  
6 that be? And that's where the rubber really meets the  
7 road. That's when you're actually going to spend the  
8 money, when you're going to make a difference in the  
9 economy, the Government's going to weigh the money ought  
10 and transfer it from one person to another.

11 I would just suggest that when we pay the money  
12 out in a given year, whether we get it by taxing somebody  
13 at that moment or whether we get it by issuing a Government  
14 bond at that moment or whether we get it because we've been  
15 holding a private financial security and sell it on the  
16 market, all of those monies are probably going to be coming  
17 from the working, productive population at that time and  
18 will be given to the aged and the disabled, at least in our  
19 program, largely in the Medicare program also.

20 So it is kind of a transfer. There's a different  
21 incidence of tax, if you will, that occurs under the  
22 framework. But this is the sense in which I think it's  
23 useful to think of this as sort of a pay-go kind of

1 concept. Whether or not you think we've got all that money  
2 sitting in the bank right now, you're going to have to  
3 actually come up with it and generate it later. That's why  
4 I think you're looking at it one year at a time in the  
5 future and seeing what these trends look like is really  
6 critical to the understanding of what we'll be facing.

7 MR. ALLEN: David, and then Jim, and we need to  
8 keep it fairly short. We're about out of time.

9 MR. TORREGROSE: I'm going to change the topic a  
10 bit and go to the economic assumptions. Professor  
11 Galbraith, in his prepared statements, took issue with some  
12 of your assumptions. I'd like to give you a chance to  
13 respond. You said that you're systematically pessimistic.

14 MR. GOSS: Everything in life is relatively,  
15 clearly. When we were talking about the relative value of  
16 the dollar, the dollar's doing pretty good now, but as  
17 everybody else [indiscernible] even worse than we do around  
18 the world. In terms of our economic assumptions, we  
19 actually had a very interesting discussion over at AEI a  
20 while back, a guy named Chuck Bonhouse from the last  
21 Administration made a presentation at AEI comparing it with  
22 the last 25 years how well the trustees have done on their  
23 first 10-year economic assumptions. He found that about

1 half of the time we were too optimistic and about half of  
2 the time we were too pessimistic. And on average, we came  
3 out to be about even. And we have found that to be the  
4 case, also.

5 To take nothing away from OMB and CBO, in the  
6 work that we have done, it appears to us as though the OMB  
7 and CBO assumptions tend to be a little more likely to be  
8 sort of, on average a little bit more optimistic. And I've  
9 always sort of felt that that's not inappropriate, because  
10 if I were working at OMB and CBO, especially at OMB in  
11 putting forth policies that we specifically thought would  
12 be really good for the Nation, it would improve things.  
13 But that might tend to make you feel a little bit more  
14 optimistic about economic growth than if we're doing what  
15 the trustees do, wearing very different hats and saying,  
16 gee, under something like current policy, what do we really  
17 expect to have happen in the future.

18 I think our assumptions have proven to be good  
19 over time. And the one other point that I think they were  
20 making also was, are they reactive, are they reactive to  
21 different kinds of policy. Two quick points on that.  
22 First of all, in the trustees report, and I think in our  
23 financial statements, we don't really pretend to put

1 forward changes in policy, changes in law that would fix  
2 things. These really are intended to be financial  
3 statements of what will happen if, we Tom was describing  
4 earlier and other people were describing earlier.

5 The other point that I think is a really  
6 fascinating one, it really emanated from some thinking that  
7 we did, and folks at CBO some years ago, was if you look at  
8 not only under the budget scenario, we're having this  
9 gigantic debt growing into many, many hundreds of fold of  
10 what GDP is, just going up to oblivion. If you look at  
11 that from a macroeconomic point of view, what would that  
12 employ? What kinds of interest rates would that mean?  
13 Could the rest of the world absorb it? Of course, the  
14 answer is it can't, so it can't happen. But what would the  
15 interest rate implications be? They would be probably just  
16 astounding.

17 Do any of our assumptions reflect that kind of  
18 situation? The answer is on. And to be absolutely honest,  
19 and I think this is where CBO came out at that time and  
20 where we had been for a long time, to be honest, our  
21 economic assumptions really reflect what we think probably  
22 makes sense assuming that something reasonable is done in  
23 the future, that somehow we've either lowered the benefit

1 structure or raised the taxes. And we keep things kind of  
2 in balance, whether it stays at 20 percent of GDP for  
3 [indiscernible] spending, goes to 25 percent, may not  
4 really matter, as long as we have things reasonably in  
5 balance and we don't have debt growing to oblivion.

6 I think it's in that context that we think of our  
7 assumptions as being pertinent. That's also part of the  
8 reason that we don't end up having a lot of dynamic scoring  
9 for proposals.

10 MR. PATTON I'd like to shift to social  
11 insurance. My question is, it seems like the means of  
12 financing payments affects your beliefs about whether an  
13 obligation exists today. Is what I said true?

14 MR. GOSS: The means of financing?

15 MR. PATTON: This is from page 3 of your letter,  
16 it's page 45 for those of us who have the full binder.  
17 Page 45 of 114. While you look, I'll read.

18 [Simultaneous conversations.]

19 MR. PATTON: Okay, that's another way of doing  
20 it. Question 2 on social insurance. Down toward the  
21 bottom it says, any program with future obligations that  
22 are intended to be and will be financed on a current cost  
23 basis as obligations come due will have a substantial

1 closed group shortfall, even with financing expected to be  
2 perfectly adequate. And since you're not in favor of  
3 reporting a liability for social insurance, I was just  
4 trying to sort of expand that notion to any program where  
5 the future payments are going to be made via financing that  
6 occurs in the future that don't have an obligation today  
7 and therefore not a liability.

8 MR. GOSS: That's good -- I think the thought  
9 about liability and social insurance has been based, in my  
10 mind, not so much on that as on the basis of whether or not  
11 there really is sort of like a, absent [indiscernible]  
12 legal binding commitment to pay the benefits. And of  
13 course, the history is that Social Security benefits can  
14 turn out to be whatever Congress wants them to be right up  
15 until the last minute. I guess my thinking on this, and  
16 where I thought we were in terms of the sort of pay-go  
17 aspect, and it's not just Social Security and Medicare, but  
18 it's really everything in Government, is that a closed  
19 group kind of analysis there, almost even liability  
20 considerations apart to show that if we were to shut down  
21 additional tax revenues coming in, which would be like a  
22 pre-obligation point of view, or shut down new entrants  
23 into the system, a different kind of closed group aspect,



1 and just show all of the obligations that would pertain to  
2 this closed group of individuals or that have been accrued,  
3 but only show the revenues that have been generated to date  
4 or that will be generated just for this closed group of  
5 people that are currently in the system, that that simply  
6 fails to portray what the finances look like under a pay-go  
7 system.

8           When the Congress, when the Government puts  
9 together a form of benefits, a form of Government  
10 expenditures, it also puts together its intent and its form  
11 of how it will be financed. And if the intent is that it  
12 will be financed on a pay as you go basis, where we pay a  
13 dollar this year, we'll pay it by generating a dollar from  
14 taxes in that year, that we really have an obligation to  
15 portray it that way and to evaluate it that way. To say  
16 that in the future, what did if we did with, for instance,  
17 defense expenditures? Actually, the Constitution requires  
18 that the Government provide defense for the United States.  
19 The Constitution doesn't actually require Social Security  
20 or Medicare. So if we would put what we think is a present  
21 value of defense expenditures for the next 75 years, or  
22 infinity, and put up that amount of money, versus what is  
23 the amount of money we have, negative \$10 trillion, of

1 right now the publicly-held debt, should be able to pay for  
2 that, that would look pretty bad.

3 But that would be a meaningful representation? I  
4 would suggest no. A more meaningful representation is the  
5 kind that you've laid out on your year by year to give an  
6 estimate of what we think on a year by year basis we'll be  
7 spending for defense expenditures, as a percentage of GDP.  
8 Also what we think is a meaningful representation of what  
9 are the revenues we expect to have in each of those current  
10 years in the future of [indiscernible] revenue. So we're  
11 looking at things on accrued obligation or on a closed  
12 group basis for any of these programs that are paid for out  
13 of pay as you go basis. I would suggest, I think the  
14 answer to the question is yes, I think that that would make  
15 sense. Social Security and Medicare should be singled out  
16 to be looked at that way, when the other programs are not.

17 MR. PATTON: One thing you said was there's no  
18 legal obligation, and under FASAB's definition of  
19 liability, we don't need a legal obligation for recording a  
20 liability. Secondly, I think we do spend some time talking  
21 about the differences between the apparent, at least to me,  
22 obligations under social insurance versus other ongoing  
23 programs of the Government. So I think there are some

1       distinctions to be made, but we've already done that in  
2       print, so I don't want to repeat them here.

3               MR. GOSS: Absolutely. I know of discussion of  
4       things like constructive obligation and lots of things, but  
5       today I think you've got so much on the liability versus  
6       not.

7               MR. PATTON: I'm still there, but --

8               [Laughter.]

9               MR. GOSS: Well, that's great, I wish we had more  
10      time.

11              MR. ALLEN: [indiscernible] was going to ask a  
12      question, I have one I want to submit to you in writing,  
13      and maybe we can even ask it in writing, some additional  
14      expounding on what Jim was asking about. She's going to  
15      state it, but then you can respond in writing.

16              MR. FRANZEL: Based on everything you've said and  
17      based on your comments, I think I'm concluding that this  
18      illustration number 3 is something that you're saying we  
19      shouldn't do any more. I will tell you, this is how I  
20      conceptualize the whole problem, because this is how we've  
21      all learned about the problem. And maybe it's because I've  
22      seen this picture so many times that this is how I  
23      visualize the problem. But I've heard you say that we

1 shouldn't have interest here eating up half of the  
2 spending, and we're putting certain assumptions into  
3 Medicare and Medicaid and Social Security here while  
4 holding other things constant, and that perhaps this thing  
5 is misleading.

6 I guess what I would ask, and I've been told that  
7 this is something you might want to address in writing back  
8 to us, is how do we re-draw this picture? You've given us  
9 some suggestions today. But I'd be really curious as to  
10 what's a good, fair way to re-draw this picture to get the  
11 information out there that we need to have.

12 MR. GOSS: Well, just very quickly --

13 MR. ALLEN: If it's all right, can I ask you to  
14 play with that and send it back to us? We'll distribute  
15 it. Thank you.

16 **The text that follows (pages 162 - 198) has been**  
17 **corrected by the speaker, Mr. Joseph J. DioGuardi, for**  
18 **not only typos but also readability. The verbatim text**  
**is available upon request from FASAB.**

19 All right, we'll ask our next speaker up.

20 Another Your Honorable, then.

21 MR. DIOGUARDI: I was an accountant before I became an  
22 Honorable.

23 [Laughter]

1           MR. ALLEN: Thank you. We don't often get a copy of a  
2 book from those speaking before our Board.

3           MR. DIOGUARDI: I also prepared a new brochure that  
4 updates some of the things that I've been doing since  
5 writing the book *Unaccountable Congress: It Doesn't Add*  
6 *Up*.

7           MR. DIOGUARDI: By the way, if anybody else wants a  
8 copy of the book, please take one.

9           Thank you, Mr. Chairman. Well, we've got economists,  
10 actuaries, politicians, accountants. But, let's not forget  
11 the people. One of the reasons that I ran for Congress  
12 came out of my experience at a great firm, Arthur Andersen.  
13 I spent 22 years of my life there. And let's not forget  
14 that Chuck Bowsher and David Walker came out of Arthur  
15 Andersen to become two successive Comptroller Generals, and  
16 I came out of Arthur Andersen to run for Congress. The  
17 firm had a tremendous impact on the public sector.

18          MR. ALLEN: After then it just went down hill.

19          [Laughter]

20          MR. DIOGUARDI: Well, I would say that Arthur Andersen  
21 had a problem with prosecutorial hubris. The Justice  
22 Department went after a firm with 50,000 employees, when  
23 they could have gone after the three partners in Houston

1 handling Enron. When the case went to the Supreme Court,  
2 the verdict was in favor of Arthur Andersen nine to zero,  
3 but by then the firm's reputation was killed. That happens  
4 to individuals, by the way, as well as to firms. And  
5 there's a lesson to be learned in that, but that's not for  
6 this session.

7 But let me remind you of the greatness of Arthur  
8 Andersen for us today. The firm not only spawned good  
9 people; it spawned great ideas. And I want to remind you  
10 where the idea for the FASAB came from. Your board was  
11 formed as a result of the bill that I introduced in  
12 Congress twice, in 1986, and in 1987. President Bush  
13 signed it into law in 1990. Arthur Andersen saw the need  
14 for generally-accepted accounting principles (GAAP) at the  
15 federal level before Congress did. No one thought that we  
16 would have a separate FASAB to do that, but we understood  
17 there needed to be a better focus on GAAP for the federal  
18 government.

19 By the way, I had to make the decision to leave the  
20 firm, not knowing I could be elected. When you are in an  
21 accounting firm, you have to leave *before* you run.  
22 Otherwise the public may think that you're being supported  
23 by the firm, and this would hurt the independence that

1 these firms stand for. So I left. And, thank God, I was  
2 lucky enough to win as a Republican in a Democratic  
3 district. I tell many of my friends that I was the  
4 accidental Congressman, because if my party thought that I  
5 would win, they wouldn't have given me the nomination to  
6 run. I was the "sacrificial lamb." But, I fooled them by  
7 winning, and now I'm here today with four years of great  
8 experience in Congress on the Banking and the Government  
9 Operations Committees. (I think they've changed their  
10 names somewhat today.)

11 But before entering Congress, I was one of the  
12 partners on a team led by Arthur Andersen's Managing  
13 Partner, Harvey Kapnick, that was hired by the Treasury  
14 Department to re-do the books of New York City, so that the  
15 Treasury Department would feel comfortable in bailing out  
16 New York City. And once we did that, under the leadership  
17 of the investment banker Felix Rohatyn, who was managing  
18 the bailout plan at the time (and I think that we still  
19 need him today, by the way), Mr. Kapnick was smart enough  
20 to take this team of Arthur Andersen partners (including me  
21 and Mr. Mort Egol, who had a lot to do with the firm's  
22 publications on public sector financial reporting) to try

1 to piece together the financial statements of the United  
2 States of America.

3 So the firm, on its own nickel, prepared the  
4 consolidated financial statements of the United States of  
5 America and published them in this booklet, *Sound Financial*  
6 *Reporting in the Public Sector*, in 1975. (They followed up  
7 in the next year with *Sound Financial Management in the*  
8 *Public Sector*.) The firm continued to prepare these  
9 statements for five years and then turned it over to the  
10 Treasury Department. This became a prototype statement  
11 that led to the one prepared by the Treasury today that you  
12 have seen publicized each year.

13 And, by the way, I came down to Washington from New  
14 York a day early, yesterday, so that I could read a hard  
15 copy of the financial statements of the United States of  
16 America for 2008. And let me tell you, we need a better  
17 format.

18 [Laughter]

19 MR. DIOGUARDI: But when you think about the important  
20 financial accounting exercise that Arthur Andersen went  
21 through, and then you think about the Treasury taking it  
22 up, and now I'm reading this statement and the first thing  
23 that hits me is, we don't have a liability for Social



1 Security on the books. I could understand that,  
2 politically, some didn't want to publicize a \$50 plus  
3 trillion obligation for Social Security and Medicare, but I  
4 still believe that there has to be a liability recorded,  
5 and I'll tell you why in a minute. But I couldn't  
6 understand why the FASAB didn't at least put the non-public  
7 portion of the national debt represented by Treasury bills  
8 on the financial statements. So I asked one of your staff.  
9 And the answer given to me was, well, we use consolidation  
10 accounting principles, and therefore we eliminated that \$4  
11 trillion liability in consolidation against the Social  
12 Security trust fund.

13 I said to myself, "Boy, that doesn't make common sense  
14 or sound like fiscal reality." You have to have at least  
15 the bonded debt, even though a big part of it is held in  
16 the trust funds, on the books of the United States of  
17 America. And if you have to do it by calling it deferred  
18 income, so be it. Some of you belong to country clubs and  
19 other social clubs. If you pay your dues in advance, they  
20 can't all be put in income. A portion has to be set aside  
21 or deferred as income in order to match those revenues  
22 against related expenditures. That's simple accounting,

1 and why anybody would say that it shouldn't apply to the  
2 U.S. government is beyond me.

3 But let me give you the answer that Arthur Andersen  
4 had in insisting, in 1975, why they put the full accrual  
5 for Social Security on the books. And, by the way, if you  
6 don't have these Arthur Andersen booklets on public sector  
7 reporting, I'd be pleased to make copies and send them to  
8 you, because I think that there's a lot here that great  
9 accountants have come up with. I was only a young partner  
10 at the time, but I learned a lot from Leonard Spacek and  
11 Harvey Kapnick, who pioneered this work.

12 And now let me read note 13 on accruing the liability  
13 for Social Security in the original 1975 prototype  
14 statement, "The Consolidated Financial Statements of the  
15 United States of America." (And, by the way, I did come  
16 here to speak mainly about fiscal sustainability, but the  
17 treatment of the liability for Social Security seems to be  
18 getting a lot of your attention, and so I thought that I  
19 should lead off with this.)

20 "An accrual for Social Security benefits is reflected  
21 in the accompanying financial statement because of the  
22 fears that such benefits could not be terminated or  
23 substantially curtailed without serious social and

1 political implications. (Social Security receipts and  
2 disbursements are also included in the unified budget.)  
3 Further, in principle, the consolidated financial  
4 statements and the accumulated deficit should reflect the  
5 liability for the amount of future benefits that will not  
6 be covered by future contributions under present law.  
7 Under this principle, inclusion of an accrual would seem to  
8 be both proper and required. It is recognized that the  
9 Social Security Act states that payments should be made  
10 only to the extent of the trust funds, and that covered  
11 individuals who have not contributed to the fund have no  
12 contractual right to receive benefits. However, this does  
13 not negate the need to accrue a liability."

14 I could go on and on and give you what the compromise  
15 was and how they decided to put the liability for Social  
16 Security on the financial statements in stages. But for  
17 now let me just say that this is a very important issue.

18 The other important issue is the 800 pound gorilla  
19 that is not in this room. It's over there in Congress, and  
20 it's over there in the Treasury Department. And you are in  
21 effect a hostage to that. Because this organization,  
22 unlike the proposal that I had in my bill, is now funded by  
23 political entities that may think differently about the

1 things that we are discussing here today. The Treasury  
2 Department, I understand, gives you 25 percent of your  
3 budget; Congress through the CBO gives you another 25; and  
4 there are another two such entities. I'm not saying that  
5 that is wrong, but there is a perception that the rules  
6 that you are making here could be influenced if one of  
7 those entities did not like the end result. And I saw that  
8 first hand when I introduced the bill for a Chief Financial  
9 Officer, which evolved from my days in the accounting  
10 profession. When I brought the concept to Congress, there  
11 was an intention that the CFO would not be subject to  
12 politics. It was intended that the CFO, not just the  
13 deputy CFOs, would be extremely qualified individuals, and  
14 that the CFO would not be part of the Treasury Department,  
15 would not be part of Congress, but would act in an  
16 independent way. This would be much like the Comptroller  
17 General, who has a 15-year term, not coterminus with  
18 anybody's election, or even something like the Federal  
19 Reserve System, where accounting standards, like monetary  
20 policy, would be divorced from politics once and for all.

21 And that concept was first espoused by Leonard Spacek  
22 of Arthur Andersen in one of his 250 speeches, as a  
23 Managing Partner of the firm prior to Harvey Kapnick. He

1 saw the need for independence and objectivity in the  
2 private sector, when publicly traded corporations were  
3 trying to game the system by picking alternative accounting  
4 principles, whether it be for depreciation or the way in  
5 those days that they accounted for the investment tax  
6 credit. Spacek concluded that the only answer was an  
7 "accounting court," a body that would take away the  
8 promulgation of accounting principles and standards from  
9 those who would appear, in the public's eyes, to have a  
10 conflict with doing this.

11 I come here today not to tell you that this is my  
12 final stop. This is my first stop. I am now the  
13 spokesman, 20 years after leaving Congress for Truth in  
14 Government. That's what I do as a volunteer. You might  
15 ask, How do I make a living? I'm on the boards of private  
16 companies that are preparing to go public, so I do make a  
17 living as a CPA.

18 But I spent 22 years at Arthur Andersen, 4 years in  
19 Congress, and now 20 years as a public advocate for fiscal  
20 responsibility, and decided to write a book that would  
21 trigger a public outcry on the lack of fiscal  
22 responsibility and financial accountability in Washington.  
23 This was not an easy book to write, and I used somewhat

1       outrageous chapter titles to get key points across. If we  
2       can't get the people to do something about what's  
3       happening, all your work is for naught.

4               Which gets me to another problem I saw as I read the  
5       U.S. Consolidated Financial Statements for 2008. What this  
6       statement doesn't do is consider the many constituencies  
7       that you have for financial information. You have the  
8       people. You have the press. You have the political elite  
9       who hopefully will make decisions based on good  
10      information. And you have sophisticated users—economists,  
11      actuaries, academics—that need it. So  
12      you need to address that. You need to in some way come up  
13      with financial information that is targeting those people,  
14      so that they can use it for whatever they need.

15             This is one of the reasons that one of the bills I  
16      introduced in the House in 1988, was to mandate that the  
17      Treasury Department distribute a simple one-page financial  
18      statement with the tax return forms that they would send to  
19      all the taxpayers in January of each year. You want more  
20      of our money? Tell us how you spent it last year.

21             Now, one would think that this would be an easy thing  
22      to do. And I even designed something that you probably saw  
23      in the brochure that I gave you, where I presented prior

1 year's financial information in the form of a credit card  
2 statement, because I realized that most people don't own  
3 shares of stock. (If they do, they do only indirectly in  
4 their pension system.) So I said, what about starting off  
5 with your balance due at the beginning of the year—your  
6 share of the national debt. (You can do it by family or  
7 you can do it by individual.) And now we add what we  
8 purchased for you, for your share of defense, Social  
9 Security, etc. We go right down the line, listing all the  
10 major expenditure items disaggregated.

11 Then there's a finance charge—your share of the  
12 interest on the national debt. And, by the way, before we  
13 get to that, what did you pay us? Here's your share of  
14 income taxes, payroll taxes, and excise taxes. And finally  
15 we end at the bottom with a reconciliation—from the  
16 beginning of the year to the end of the year—concluding  
17 with your share of the national debt at the end of the  
18 preceding fiscal year.

19 Now, it's not perfect. But it was a simple way to  
20 convey to the public that the deficits are creating  
21 additional debt that has to be paid by someone in your  
22 family. And, on second thought, it *should* be a family

1     thing, because the family goes on to future generations  
2     even as individual members pass away.

3             But the answer from the Treasury was that it would be  
4     too expensive to include even one piece of paper with the  
5     100 million tax return forms that are sent out each year.  
6     So, again, conventional political thinking trumped common  
7     sense. Obviously, Treasury didn't want to do it, because  
8     they didn't want taxpayers to focus on the fast  
9     accumulating national debt in individual or family terms.  
10    Politicians have gamed the system. And let me tell you how  
11    they've done it from an accountant's perspective, since  
12    there are many accountants here at the FASAB.

13            What is the operating cycle of the United States of  
14    America? I was the chairman of an AGA (Association of  
15    Government Accountants) task force in 1993. After I wrote  
16    *Unaccountable Congress*, they called me and asked how can we  
17    change the budget process? I said that it wouldn't be  
18    easy, but that they should appoint me to chair a task force  
19    on "Truth in Budgeting and Accounting." And you'll see in  
20    the brochure (that I handed out earlier) a four-page AGA  
21    Task Force report containing six recommendations for  
22    changing the budgeting process.



1           Now, I know from your staff that the FASAB is not  
2           mandated to consider or change the budget process. And,  
3           while I can understand that, one might ask why? The United  
4           States government has an operating cycle that is three to  
5           four years. And what we're talking about here today is  
6           only the end of the cycle. It starts with budgeting and  
7           spending. Then come the accounting and reporting. That's  
8           the three- to four-year operating cycle I mentioned  
9           earlier. But if you don't take generally-accepted  
10          accounting principles and reflect them in the budget  
11          process, the cats are out of the house. (When you go on a  
12          vacation and you have four cats, it's very difficult to get  
13          them into the van once you have let them out of the house.)

14          What we have done is let the politicians determine,  
15          through the budget process, what the accounting principles  
16          are and what our nation's unrecorded and unfunded  
17          commitments are. And, by the time it comes down the line  
18          to you, where you are focused on preparing financial  
19          statements, you're basically dealing with a foundation for  
20          financial reporting that is very porous, as I said in my  
21          written comments to you.

22          And, while this will not change tomorrow, we need to  
23          understand that if you don't integrate accrual concepts

1 under generally accepted accounting principles (even with  
2 some modifications for the federal government) into the  
3 budget process, then the financial reporting process is  
4 already compromised and may even become meaningless—because  
5 we’ve already appropriated and spent the taxpayers’ money  
6 and have also already committed a lot to be spent later.  
7 Now you are left only with disclosing what was spent or  
8 committed. Hopefully, with a report on fiscal  
9 sustainability, we can point the way to the future and get  
10 the public interested in what went on at the beginning of  
11 that cycle, so that they will then become active in the  
12 whole process. I think that this is the most valuable  
13 result that comes from what you are doing here today. And,  
14 by the way, I agreed with most of your board’s conclusions,  
15 as I said in my written statement, which I’ll be happy to  
16 repeat here. In any case, they are there for you to read  
17 and to understand my thinking on each of the issues to  
18 which I responded.

19 What you are doing that’s most valuable is trying to  
20 give information to the most important constituency of all,  
21 the people. Why is that important? Because unless they  
22 are informed and unless they get motivated, and in some  
23 cases even angry, you’re not going to get the changes we

1 need to stop the financial tsunami that will dwarf the next  
2 generation. I've listened to the economists, and they can  
3 talk all they want about economic philosophy. You've got  
4 to go back to accounting. And, now, I will take a few  
5 minutes to tell you who I disagree with and why I disagree  
6 with them.

7 MR. ALLEN: I was about to phrase that just a little  
8 bit differently. We have your written comments, and as you  
9 indicated, you agreed with, on the projection or  
10 sustainability with most of what we have there. I was  
11 going to ask you to respond to some of the issues,  
12 particularly the issues, since you say, appropriately, that  
13 the most important people we're trying to communicate with  
14 are citizens. There have been a number of comments,  
15 including one that this would just be confusing if you show  
16 the chart that you have.

17 Go ahead and respond, but we're most interested in how  
18 we can improve what we're doing to respond to the citizens  
19 and others.

20 MR. DIOGUARDI: Okay. Let me in five minutes tell you  
21 what I think.

22 MR. ALLEN: Go ahead, we started you a little bit  
23 late. We'll go until 5 after.

1           MR. DIOGUARDI: Well, I'm supposed to go on until  
2       12:15, I think.

3           MR. ALLEN: Yes, sorry.

4           MR. DIOGUARDI: Don't shortchange an accountant,  
5       please. It didn't add up—the time, that is.

6           [Laughter]

7           MR. DIOGUARDI: David Walker, the former Comptroller  
8       General, who testified earlier today, said that he doesn't  
9       see the need to record the unfunded liability for Social  
10      Security and Medicare of approximately \$53 trillion. But  
11      he's right on the money when he says that it's ridiculous  
12      that we're not putting at least the entire bonded debt of  
13      \$10 trillion on the books. And, that's something you need  
14      to address, whether you call the trust fund surpluses that  
15      have been spent and replaced with Treasury bonds, deferred  
16      income, or something else—it has to be done. But I  
17      disagree with Walker that there's "no exchange" regarding  
18      Social Security and Medicare, and that therefore no  
19      liability needs to be recorded for the estimated \$53  
20      trillion mentioned above. He's looking at a concept that  
21      he may have become familiar with in Washington, and he may  
22      have forgotten what he learned at Arthur Andersen. While  
23      the concept of "exchange" may be a valid legal concept,

1 Walker is saying that if you can't show that there's  
2 something exchanged, like services for benefits, then a  
3 liability should not be recorded for Social Security and  
4 Medicare.

5 I disagree with that. We have politicians running  
6 around using rhetoric like accountability and transparency.  
7 They even throw terms around like lock box and trust fund.  
8 People have taken them at their word. People have voted  
9 for them. There's been an exchange of political capital  
10 here, even moral capital, not necessarily personal services  
11 or financial capital. And to get back to the title of Mr.  
12 Spacek's book, where Arthur Andersen pulled all his  
13 speeches together—it is *Fairness in Accounting and in*  
14 *Financial Reporting*. Fairness is the key word. Are we  
15 being fair to the next generation and to other  
16 constituencies by not indicating what the real liability  
17 for Social Security and Medicare is?

18 So I disagree with Mr. Walker. We have something  
19 called moral capital and political capital. It's been  
20 extended and taken, and that's why we need to report a  
21 liability for Social Security and Medicare.

22 And, by the way, he should be the last one to suggest  
23 this, because every time the Pete Peterson Foundation,

1     which he serves as President, takes out an ad in the paper--  
2     like the big two-page ads in *The New York Times*--\$53  
3     trillion of liabilities for Social Security and Medicare  
4     are put where everyone can see them. (Now he's up to, in a  
5     recent article in *The Washington Post*, \$56 trillion.) You  
6     can't speak out of both sides of your mouth. If you're  
7     going to advertise to the public that the debt for Social  
8     Security and Medicare is \$53 trillion--and we're not saying  
9     funding (let us not confuse funding with reporting)--then  
10    you've got to report it as such. And he should know that  
11    political reality better than most.

12         Also, I heard the economists who testified before me  
13    say that you can't fund these liabilities. But no one is  
14    talking about *funding* \$53 trillion. We're talking about  
15    *reporting* it, putting it on the books and financial reports  
16    where all can see it, and not disguise it. Put it right  
17    where it can be seen. If you need a foot note to explain  
18    it a little more, do it. But you need to record it.

19         Now let me respond to another issue mentioned by one  
20    of the economists who testified earlier. He said that you  
21    don't have to worry about anything, because if we have  
22    deficits and we've got bonds, the money basically comes  
23    back to the public as expenditures and it's a wash. It

1 sounds like the consolidated financial statement rules  
2 mentioned earlier as a reason not to record a liability for  
3 that portion of our bonded debt in the trust funds. It's  
4 again an inane result. What he failed to tell you is that  
5 we don't spend all of our money in the United States.  
6 We're in a global economy now. We don't know how much of  
7 what we're borrowing is being spent abroad, like the  
8 expense for the Iraq war. So our citizens are not  
9 benefiting from that, financially.

10 And of one of the other important things that you need  
11 to do with the statement for fiscal sustainability (which I  
12 put in my written testimony to you) is recognize that the  
13 most important thing in the future for us is whether the  
14 United States is going to be competitive. Is the United  
15 States going to win this global economic battle (now that  
16 we're in a global economy), so that we don't become a  
17 hostage to China, Japan, or any other foreign nation? And  
18 we are almost there with respect to the money that we have  
19 borrowed from them (and I hope that we are able to continue  
20 to borrow from them in the short term). But somehow we've  
21 got to break that chain of debt, especially from China,  
22 because it's not the right thing. If we want to be the

1 leader of the free world, we cannot be a hostage to other  
2 nations that do not embrace our values.

3 So, therefore, one of the questions you asked was,  
4 Should we report on the foreign debt? Absolutely. Loud  
5 and clear. Put it in there graphically. I think that  
6 you've concluded the same thing. You need to show that  
7 clearly.

8 But there are other things. What are the expenditures  
9 for national defense and Research & Development for the  
10 United States compared to other countries? We need to find  
11 things that show us that while we may be in a deep deficit  
12 position now, that we are still competitive enough because  
13 of these factors and that we're going to come out of  
14 deficit spending. Because we're spending an inordinate  
15 amount of our money on defense and not being reimbursed by  
16 others (e.g., Iraq may never pay us back), this has to be  
17 understood now, because it is going to reduce the  
18 competitiveness of the United States of America in the long  
19 run.

20 Another earlier speaker said that "it is what it is,"  
21 regarding intergenerational equity. He said that we used  
22 to have three kids in a family; now we have two. I don't



1 accept that. We still have an obligation to at least  
2 report on intergenerational inequity.

3 But if you want to think about it in positive terms,  
4 you should think about what made this country great to  
5 begin with—how we overcame all these deficits and how we  
6 overcame our huge national debt without going under so far.  
7 (Although we're thinking that this could be a much bigger  
8 problem in the future.) We are the most productive country  
9 in the world. We have had the technological edge that put  
10 us there. And it offset all the waste that we have seen  
11 and many of these deficits. So who's to say in the future,  
12 if we do the right things that two people cannot become  
13 three or more with technology? And we need to report where  
14 we stand now before we can plan for the right things—that's  
15 why your role is so important.

16 So the issue is not to look at just the size of the  
17 family, look at the potential of two people to become  
18 three, four, five, and six, if we are competitive, and if  
19 we give them the tools they need in order to be productive  
20 in technological terms. U.S. companies like Microsoft and  
21 Google—that's what's keeping this country ahead of the  
22 game. But we need to provide good financial information to  
23 stay on track for fiscal sustainability.

1           So with that, let me conclude, and then I'll take any  
2       questions you want. You're going to hear a lot more from  
3       me, because I'm now taking Truth in Government public.  
4       We're going to become—and I just spoke to David Walker and  
5       he is thinking the same thing—that it's not enough just to  
6       inform people. You need to create a grassroots lobby, just  
7       like Howard Jarvis did in the '70s with Proposition 13 in  
8       California. And I'm going to now convert Truth in  
9       Government to a 501(c)(4) advocacy organization. And we're  
10      going to make sure your information gets to the right  
11      people, so that they can act on it. Because without them  
12      acting on it, nothing is going to change.

13           So let me just now go back. (I took some notes over  
14      coffee this morning.) I think that we need to be careful.  
15      As I said, too many people are throwing around the words  
16      "accountability" and "transparency." And they don't know  
17      what they really mean or entail. You can't have  
18      accountability without good accounting and financial  
19      management systems. You can't have transparency if you're  
20      going to throw a thick book of financial statements like  
21      this at anybody and say, "We reported to you."

22           Now, let me tell you what happened to me as a new  
23      Congressman in 1985. I kept holding my voting card up and

1 saying, "This is the most expensive credit card in the  
2 world." (I don't know whether you know that a House  
3 Member's voting card is the same shape as a credit card.)  
4 So every speech I gave, I took it out of my pocket to  
5 remind my colleagues that they were passing on a debt to  
6 the next generation, and much of it was not even reported.  
7 That's why I put the Congressional voting card on the cover  
8 of my book with the inscription: "Credit line unlimited,  
9 expiration date never, bill to future generations."

10 A senior member came to me one day and said, "Joe, we  
11 get this quarterly report from the House Clerk, and I don't  
12 understand it." He handed me this book, and I see all  
13 these checks listed with no captions or categories. I was  
14 dumbfounded and said that I didn't know what it was. So I  
15 called up the Office of the Clerk, and I asked, "What is  
16 this?" He said, "Well this is our way to report to you and  
17 the people what every Congressional office is spending in  
18 Washington and in their districts."

19 You know what they were doing? They were listing  
20 every check that a Congressman spent in his or her office  
21 with no totals and no cross tabulations. But they thought  
22 that they were disclosing everything. You had to have your  
23 own calculator to put it together.

1           And that's when I realized that we were in trouble.  
2       The powers in the U.S. Congress were reporting to  
3       themselves by listing every check in the check register.  
4       They wanted you to think that they were being transparent  
5       by reporting this way to you. That's one of the reasons  
6       that I became so interested in this and said, things will  
7       have to change. I was the one who recommended that an  
8       independent audit of the House be done. The first one was  
9       done by Price Waterhouse in 1994. And we now know that  
10      they couldn't do a "clean" audit in the House, until the  
11      books were straightened out a couple of years later.

12           But look at what you just heard from David Walker.  
13      Over half of the information in this year's Consolidated  
14      Financial Statements of the United States of America is  
15      unauditable. The Defense Department still doesn't have a  
16      set of books that we can audit. And it's almost 20 years  
17      after the CFO Act was passed requiring this. And one of  
18      the things that you are trying to do is to get the  
19      information out faster to the public. That may be a  
20      mistake. Maybe we need to get better information out to  
21      the public and take a little more time. Because now the  
22      cycle has been reduced. It used to be nine months, I

1 think, before your financial statement was out. Now it's  
2 down to three months.

3 MALE SPEAKER: Forty-five days.

4 MR. DIOGUARDI: Forty-five days. Well, can anybody do  
5 an audit in 45 days, especially in a system where we know  
6 the books are in shambles, particularly in some of the  
7 federal government's biggest agencies?

8 So we have a basic problem. You need to have audits  
9 of this. You need to have independent audits. Why not a  
10 consortium of outside accountants, hired by the U.S.  
11 government to do this, so that people know this is being  
12 prepared by a third party—to be objective and fair?

13 I could go on and on, but you want to have lunch.  
14 About some questions, I'd be happy to answer your  
15 questions. You have my book, you have my written  
16 testimony, and you have my business card with information  
17 on where to reach me after this hearing.

18 MR. ALLEN: Actually, that's great. We do want to try  
19 and get as many people involved, and we do want to try and  
20 present the financial statements in an understandable  
21 format. So any additional written comments based on your  
22 reading, or after reading the comprehensive financial

1 report, I'm sure Treasury and all of us will be interested  
2 in it.

3 I'd like to start with a concept that you just touched  
4 on that seems to be at the heart, when I say some of us are  
5 from Mars and some of us are from Venus, or whatever that  
6 may be, it centers on the concept of what drives financial  
7 reporting. In the broader perspective, not just the  
8 federal government, but in industry or anywhere you have  
9 financial reporting, it's centered on the concept of, do  
10 you account for things based on a legal construct. In  
11 other words, if it's a liability, do you legally have to  
12 pay it, or do you try and capture something that, people  
13 have used the word "an economic substance," or any  
14 understanding between different parties? For example, you  
15 know, something you have, a loan to the bank is probably a  
16 legal obligation. Something you have promised your  
17 employees to pay health benefits is an understanding, it's  
18 not a legally enforceable thing. What's at the heart, or  
19 what should drive financial reporting?

20 MR. DIOGUARDI: Well, I think you heard it before that  
21 you don't need to have a legal obligation to report a  
22 liability. And when there have been so many promises made  
23 (and Social Security and Medicare are the big ones), it

1 just seems to me that these promises can be measured in  
2 accounting terms as fixed and determinable, and when you  
3 have a liability that is fixed and determinable, you should  
4 report it. This is basic accounting. And there's no  
5 question that actuaries can compute this liability. They  
6 may have some different approaches to it and some may say,  
7 by the way, as Harvey Kapnick did, that you don't have to  
8 put it all on the books immediately. Let's look at what  
9 we're doing with other pension systems and roll it out,  
10 maybe over 30 years, i.e., cut the amount in 30 parts to  
11 follow what's going on in the private sector (and I believe  
12 that is what they did with civil service and military  
13 pensions). And don't forget that was 1975, when Kapnick  
14 said that, and things may have changed since then.

15 The point is, you don't necessarily have to report it  
16 on the balance sheet all at once. But there should be  
17 recognition that this is a liability. Politicians have  
18 been elected on it. People have been promised this, and  
19 you have people that understand it as a trust fund, even  
20 though everybody here understands that it's not really a  
21 trust fund.

22 So my feeling is that it is fixed and determinable,  
23 even though it's not a legal liability. Even though the

1 law does say that if the Social Security fund runs out of  
2 money, there's no obligation to pay it, I daresay it's not  
3 going to be a good answer, because there certainly is a  
4 moral commitment to pay. So my feeling is that while the  
5 liability for Social Security and Medicare may not be a  
6 debt obligation like a Treasury bill, we need to show it as  
7 a liability.

8 And let me, just as an aside, say that it's incredible  
9 to me that in 1983, the Commission that was set up to save  
10 Social Security raised the rate of the FICA tax and the tax  
11 base. And we accumulated a lot of money. And yet  
12 politicians have run around saying, they have reduced our  
13 income taxes. What they did is they took the money from the  
14 payroll taxes and substituted it for the general fund. And  
15 how did they do that? By taking the money out of the  
16 Social Security "trust fund" and using it in the general  
17 fund of the budget. Not exactly as advertised after we  
18 told the public that it's a trust fund. But now they are  
19 saying we've reduced your income taxes, but what we really  
20 did is increase the taxes on the poorest people in America.  
21 The payroll tax is the most regressive tax of all. You  
22 could be homeless, work two weeks, pay Social Security, and



1     you can't get a refund for that. It's worse than a sales  
2     tax in terms of being regressive.

3             So it seems to me that's wrong—morally wrong. You  
4     can't on the one hand say we're reducing your taxes, but  
5     then borrow to spend anyway (like the Governor of New York  
6     did for his three terms, leaving New York with the biggest  
7     debt of any State in America and with a bond rating that is  
8     now lower than all other States except one, because we  
9     spent a lot of money that we did not have).

10            In effect, that's what the federal government is  
11     doing. But worse than that, Congress took the money out of  
12     the Social Security trust fund that was put there by  
13     payroll taxes on some of the poorest people in America, and  
14     we used it for the general fund.

15            Now, I don't know that this is described in this  
16     year's U.S. financial statements anywhere. I didn't see  
17     it. But believe me, this is a political device that has to  
18     be corrected at some point. That's why I wrote the book.  
19     I say in my book that Social Security is a shell game, a  
20     "Ponzi scheme" defrauding the next generation. We don't  
21     need Mr. Madoff to understand what we did with Social  
22     Security.

1           So, yes, record it as a liability. And if you don't,  
2       I think you do it at your own peril, because people are  
3       going to say, well, how come we are hearing about this \$53  
4       trillion or \$56 trillion liability for Social Security and  
5       Medicare, and it's not on the books of the United States?

6           MR. ALLEN: Nancy?

7           MS. FLEETWOOD: I was looking at your comments, and  
8       also you touched on it today. One of the things that you  
9       mentioned in your written comment was that you were very  
10      supportive of the fiscal sustainability statement.

11          MR. DIOGUARDI: Yes.

12          MS. FLEETWOOD: But you also added, which I thought  
13      was sort of fascinating, the idea, you commented on the  
14      fact that we talked about doing the debt, and you thought  
15      that would be really good. But you also said, and you  
16      mentioned it again today, and I was just curious about  
17      this, about us doing something even further in comparison  
18      on key indicators with other countries. I wondered if you  
19      could just expand on that a little bit. Because that  
20      wasn't something that we presented in there, and it's  
21      something that I think was very interesting that you talked  
22      about.

1           MR. DIOGUARDI: That's why I was surprised that the  
2 economists who testified earlier were not thinking about  
3 this in global terms. We're in a global economy. And it's  
4 obvious from what's going on right now that whatever  
5 started here in the United States has affected the rest of  
6 the world. So we are global. And we owe a couple of  
7 trillion dollars to China and Japan right now. And I think  
8 that we're going to have to continue to borrow from them,  
9 at least in the short run.

10           But to the extent that we keep borrowing from foreign  
11 nations, is that going to change some of the public  
12 policies of the United States of America? For instance, we  
13 saw the Secretary of State recently go to China. She  
14 didn't mention anything about human rights. Usually we  
15 would. Why didn't she? Well, I would think because we  
16 don't want to upset the Chinese, because we need their  
17 money.

18           So it seems to me that we need to start thinking about  
19 the bigger picture. Are we going to be globally  
20 competitive in the future? What are the financial things  
21 that we need to see now that point the way to the fact that  
22 we will be globally competitive or will not be globally  
23 competitive? That's what I was thinking about. And I

1 mentioned defense, because that's such a large part of our  
2 budget, and a lot of it is being spent abroad, and this  
3 country bears an inordinate share of that expense for the  
4 free world.

5 And how much longer can we have a large part of our  
6 GDP dedicated to defense without injuring the financial  
7 base of this country, and thereby become a hostage to  
8 others? I just throw it out as a principle. I think that  
9 you need to go a little bit further than you have in  
10 looking at those things that would point to whether or not  
11 we're going to continue to be the most productive country  
12 in the world by looking at other items, such as R&D  
13 expenditures relative to other nations. And, are we going  
14 to continue to be the most independent country in the  
15 world? There are things that we can disclose now that will  
16 point the way for us. And if you talk about  
17 sustainability, I see that as part of it. Maybe not the  
18 most important part, but I see it as a key component of  
19 measuring our future fiscal sustainability as a free and  
20 independent nation.

21 MS. FLEETWOOD: I think one of the other speakers  
22 mentioned, just in passing, medical expenses. What is our  
23 percentage of spending on medical expenses compared to

1 other countries? I was thinking that might be another key  
2 indicator.

3 MR. DIOGUARDI: Absolutely. And also I mentioned "tax  
4 expenditures" in the conclusion of my written comments. I  
5 said, why are we not focusing on the tax revenues we've  
6 diverted to housing, healthcare, and other tax deductions,  
7 so that we really know what the totality of government  
8 spending is. And it's not that we would set the policy to  
9 change it. But we have to disclose it so that people can  
10 understand it and, perhaps, even act on it. Either people  
11 will say, this is not right, or the politicians will say,  
12 now we're spending too much. I hadn't realized that those  
13 indirect expenditures were getting so high as they are  
14 relative to the budget that we are dealing with today.

15 So that's another element that has to be disclosed.  
16 You're dealing with some of the most complex things  
17 possible. And somehow, you have to simplify these things  
18 to put them in a context and in a form that will enable us  
19 to talk to the average citizen about it. And we may have  
20 to do it in several different ways.

21 For the average person, you're going to need to come  
22 up with a one-pager. It may break your heart to do it, but  
23 I don't think they're going to ever read anything that has

1 more than a couple of pages, and it has to be in a format  
2 they understand. That's why I came up with a credit card  
3 statement, because I figured that would be the only thing  
4 that most people would understand. But I don't have a  
5 monopoly on ideas. You have great people on this board,  
6 and I think that you have to start thinking about how can  
7 we get this information to all constituencies, as I  
8 mentioned at the beginning of my testimony here  
9 today. You have to be very sophisticated financially to  
10 understand the U.S. financial statements the way they are  
11 presented today. I had to take a lot of time to read them.  
12 I learned a lot, by the way, yesterday, doing that. Very  
13 informative!

14 But I didn't like to hear from Mr. Walker that less  
15 than half of the financial information being presented is  
16 subject to an audit right now. (And we're trying to add  
17 some other things like the statement on fiscal  
18 sustainability, which has to be dealt with as well.)

19 And the Treasury, they have a big responsibility. The  
20 CFO, in my bill, was not supposed to be part of the  
21 Treasury, as I said. It was supposed to be a completely  
22 independent office. And when I saw the final compromise  
23 made to pass the bill, I wrote an editorial in *The*

1     *Washington Post* in 1990 saying that we had now put the fox  
2     in the hen house. And that was basically what we did,  
3     because now the CFO is a captive of the political process.

4             Once you're in the Treasury Department, you're part of  
5     the Administration. Once you're in the Congress, even the  
6     Congressional Budget Office, you're part of that function.  
7     You need to somehow become separate from all that and  
8     become a higher body like the accounting court that Leonard  
9     Spacek talked about. It's time that we take the numbers  
10    away from politicians. It's time that we take the budget  
11    process—not the appropriation function, which is political—  
12    away from the politicians.

13            Remember what happened when President Johnson changed  
14    the budged process to disguise the cost of the Vietnam War.  
15    He came up with a "unified budget." So now we offset the  
16    surpluses from the trust fund against the expenditures of  
17    the rest of the budget, and no one has attempted to change  
18    that. That was wrong. It should have been changed.

19            Remember "Gramm-Rudman"? The law was passed when I  
20    came to the House in 1985. It was supposed to be a  
21    mechanism that would take the deficit and reduce it to zero  
22    over four years. Well, by the time they got to third year,  
23    they realized that it wasn't going to happen, so they

1 extended it to five years. By the time the fourth year  
2 came, they realized that they couldn't do it, and so they  
3 went to six. Then they realized that they couldn't do it  
4 at all, and Gramm-Rudman was eliminated.

5 And what happened to the Budget Enforcement Act—"pay  
6 as you go" in 1990? Gone! Every Congress comes in and  
7 changes the budget process the way *they* want it. This is  
8 ridiculous.

9 But the reason it's not changing for the better is  
10 that people don't know enough to speak up. We haven't  
11 developed a constituency for this. I would like to think  
12 that for the rest of my life, that will be a good role for  
13 me to play. Thank you.

14 MR. ALLEN: Thank you very much. We appreciate that.

15 We will reconvene at 1:00 o'clock.

16 MR. DIOGUARDI: You're doing a good job. Keep it up.  
17 It's not going to be easy. But as Churchill said in *The*  
18 *Gathering Storm*, "KBO" (Keep Buggering On). And we do have  
19 a "gathering storm," by the way.

20 See note on page 162 regarding edits to this text.

21

22 [Luncheon recess.]



1                   A F T E R N O O N     S E S S I O N

2                   MR. ALLEN:  Let's get started.  Victoria, we'll  
3                   turn the time over to you.  Take just a second and tell us  
4                   your -- I guess we have your résumé, don't we.  Go ahead.

5                   MS. VETTER:  My name is Vicky Vetter.  And thank  
6                   you for having me here today.

7                   I work in the Social Security Administration  
8                   Office of the Inspector General, and I have an audit  
9                   perspective, and I'm the audit director for the financial  
10                  audit division of SSA.  First, I'd like to focus on the  
11                  exposure draft and the fiscal sustainability reporting.

12                  I'm not blessed with a loud voice, so if you  
13                  can't hear me, let me know.

14                  The [indiscernible] financial statement can only  
15                  be productive if there are categories other than social  
16                  insurance programs.  The social insurance programs are the  
17                  only things itemized on the statement [indiscernible]  
18                  budget to the current [indiscernible] statement.  Readers  
19                  will be interested in other [indiscernible] categories such  
20                  as defense, the environment and education.  Combining all  
21                  other programs [indiscernible].  This really does not go  
22                  beyond the already [indiscernible] time projections of  
23                  receipt and obligations for Social Security and Medicaid.

1            (?) [indiscernible] as assessing [indiscernible]  
2        budgetary resources will likely be subjected to sustained  
3        public services and to meet obligations as they come due is  
4        important. It is [indiscernible] misleading to illustrate  
5        only [indiscernible] and not cover public services citizens  
6        expect [indiscernible]. For comparative purposes, we  
7        believe that a fiscal sustainability report should be  
8        [indiscernible] not to exceed 75 years. The time line of  
9        the statement should complement the statement of social  
10       insurance [indiscernible] year projections. If the hope is  
11       that this new statement will incite action, it should not  
12       be illustrated with an infinite horizon. [indiscernible]  
13       believe that the infinite horizon is irrelevant and not  
14       realistic to project the entire Federal Government. The  
15       exposure draft is very brief on the issue of current and  
16       future participants. We feel strongly that any  
17       sustainability report should use the same population  
18       [indiscernible] for such reporting. If the board  
19       [indiscernible] statement we believe high level disclosures  
20       are better, such as those included in the summary parts.  
21       [indiscernible] challenges(?) projections [indiscernible]  
22       alternative illustrations would be beneficial. However, if  
23       too many alternatives are provided, projections would

1       reduce the credibility of the statement.

2               We believe that the only alternative scenarios  
3       that should be presented are to increase revenue and to  
4       decrease spending as they are generic. Both the narrative  
5       and graphic displays would be helpful to understanding this  
6       statement [indiscernible] emphasize the need for  
7       readability. As much as possible, very complex issues and  
8       terms should be avoided, such as fiscal gap. Fiscal gap,  
9       as defined, can be very complex. To understand the fiscal  
10      gap, one would have to understand public debt as a  
11      percentage of a target of GDP.

12              If the discussion of the exclusive  
13      [indiscernible] social insurance programs, this is a  
14      discussion that may be better suited for other, more  
15      technical reports. We also believe that frequently asked  
16      questions are a very useful tool to navigate the proposed  
17      statement. However, a name better suited for GAO's  
18      [indiscernible] understand the annual financial report of  
19      the United States Government.

20              There are a few points in the exposure drafts  
21      that seem outside the scope of the financial statements  
22      [indiscernible]. We believe that it would be interesting  
23      to present a schedule showing trends in U.S. Treasury debt

1 held by foreign investors. This information would show the  
2 behavior [indiscernible] impact foreign countries could  
3 have on the economy. However, this is not a direct  
4 correlation to fiscal sustainability in the discussion  
5 parts of the statement.

6 With respect to [indiscernible] information  
7 effort is [indiscernible] optional. It also seems not  
8 [indiscernible] purposes of the statement.

9 Finally, we support the notion that if the board  
10 institutes this new statement, the statement should remain  
11 required supplementing [indiscernible] information. We  
12 believe that implementation of the [indiscernible] new  
13 statement is unreasonable, and we believe that  
14 [indiscernible] document the underlying information  
15 supporting such a statement. Further, we believe that this  
16 proposed statement is [indiscernible] statement  
17 [indiscernible] standards need to be developed and  
18 implemented before such a statement becomes basic  
19 information. Not all preparers and auditors of financial  
20 statements have experience with monitored estimates and  
21 projections.

22 However, with all this said, the board has  
23 already acknowledged that much of this information is

1 already available and is it really prudent to expend more  
2 resources if this information is in fact already available?

3 I'm going to move on to accounting for social  
4 insurance.

5 MR. ALLEN: Is it all right if we barge in and  
6 ask questions and then move on?

7 MS. VETTER: Sure, absolutely.

8 MR. ALLEN: Okay. We'll open it up for questions  
9 that you may have.

10 MR. STEINBERG: Just a quick [indiscernible] to  
11 clarify on the implementation date, you would not be in  
12 favor of the implementation scheduled that we've outlined?

13 MS. VETTER: No.

14 MR. STEINBERG: But you would support that it  
15 would always be an RSI, never be a basic statement, or --

16 MS. VETTER: No.

17 MR. STEINBERG: -- a longer implementation  
18 period?

19 MS. VETTER: Both. We believe in a longer  
20 implementation period, and we also believe that it should  
21 stay RSI and that [indiscernible].

22 MR. STEINBERG: So if we're going to make it  
23 basic, have a longer implementation period?

1 MS. VETTER: Yes.

2 MR. ALLEN: I'm not sure I got your summary, or  
3 maybe I missed yours, because I have a longer  
4 implementation period and have it remain RSI?

5 MR. STEINBERG: No, I was asking if the board,  
6 what I said was if the board would decide that we were  
7 going to make it basic, your recommendation would be to not  
8 make it basic for a longer period than three years.

9 MR. ALLEN: Yes, the indefinite horizon  
10 [indiscernible] approach.

11 Let me just follow up on that and then, Hal, I'll  
12 get back to you. In terms of, you raised the issue of the  
13 auditability and the challenges to that. We have received  
14 a response from a couple of audit organizations that seem  
15 comfortable in the auditing. I just was curious, does that  
16 relieve some part of your concern?

17 MS. VETTER: It is auditable. It's just how  
18 we're going to get there. You know, I've read through how  
19 developing the auditing standards for [indiscernible]  
20 getting the [indiscernible] for the last three years. It  
21 took them an entire year just to do a pre-audit to get  
22 ready for the real audit. So I know it's required to  
23 compare [indiscernible] audit and where you're going on it.

1 And I [indiscernible] through and implement it and  
2 [indiscernible] have people for it.

3 MR. STEINBERG: In the letter that we got from  
4 Steve Schaffer, which I guess you're familiar with, he said  
5 you further believe that something will have to be done to  
6 correct the situation prior to the 75-year horizon. Do you  
7 have any suggestions for how the statement could be  
8 designed to better show that something needs to be done  
9 prior to 75 years?

10 MS. VETTER: Something to reflect that  
11 [indiscernible] earlier you [indiscernible] grouping up  
12 there, it was going to be every five years. So the number  
13 is not so far out there. If you want people to react, 75  
14 years might be too long. Versus if you had [indiscernible]  
15 year five or ten, you may get people's attention.

16 MR. JACKSON: I had asked a question of David  
17 Walker earlier, and I do recall his response, but I get  
18 back to being able to audit or determining the  
19 reasonableness of the assumptions. On the one hand, going  
20 out 75 years is one thing. But I begin to struggle, I  
21 actually really began to struggle with determining the  
22 reasonableness of assumptions when we go out for things  
23 like an infinite period. And putting aside the cost issues

1 and stuff like that, how comfortable does the Inspector  
2 General's office feel with, albeit maybe you are not, well,  
3 maybe you are, dealing with the reasonableness in  
4 assumptions over an infinite period of time?

5 MS. VETTER: Infinite, there's a lot of words  
6 that go around the estimate. They're estimates, they're  
7 subject to change.

8 MR. JACKSON: It draws into question that maybe  
9 even the relevance of the numbers?

10 MS. VETTER: Um-hmm [affirmative].

11 MR. JACKSON: Would you do that sort of a  
12 question, I should have put it that way.

13 MS. VETTER: Well, I know one of the questions  
14 you asked Mr. Walker was the infinite horizon.

15 MR. JACKSON: Yes, 75 years, people have bounced  
16 on that for years. And so --

17 MS. VETTER: Right. You know, again, we get  
18 comfortable with estimates that the actuaries use. But the  
19 words are crafted very carefully and [indiscernible] to say  
20 these are only as good as what we know today and that's  
21 really all we can offer.

22 MR. JACKSON: Which is not much of an opinion, is  
23 it?



1 MS. VETTER: No.

2 MR. JACKSON: I'm just, I'm being my typical  
3 self. Thank you.

4 MR. SCHUMACHER: So if somebody were going to  
5 project 75 years, Social Security would be the best at it?

6 MS. VETTER: Yes.

7 MR. SCHUMACHER: Given the Government?

8 MS. VETTER: Yes.

9 MR. SCHUMACHER: So everybody else is going to  
10 have a lot more trouble doing this stuff, because they're  
11 not scheduled benefits, they're not, Mr. Walker was talking  
12 about revenue projections being particularly problematic.  
13 So my guess is that you couldn't put enough words around an  
14 estimate from --

15 MS. VETTER: Defense Department.

16 MR. SCHUMACHER: Defense Department. To make  
17 those seem reasonable.

18 MS. VETTER: Correct.

19 MR. SCHUMACHER: So that's just an observation.

20 MR. JACKSON: So you've answered my question.

21 MR. SCHUMACHER: Glad I could help.

22 [Laughter.]

23 MR. ALLEN: [indiscernible] going

1 [indiscernible].

2 MS. VETTER: Starting with the MDNA section, the  
3 MDNA section should provide a brief high-level discussion  
4 of the financial statement. We do not believe that  
5 technical details are appropriate for the MDNA, as the  
6 reader can be referred to the statement and notes  
7 [indiscernible] in the annual trustees report. Rather, a  
8 discussion about possible future possible effects of the  
9 anticipated events, which include [indiscernible] forecasts  
10 or projections are too speculative in nature and  
11 inappropriate for the MDNA. This type of detail should be  
12 in the required supplementary information.

13 With respect to the balance sheet, the balance  
14 sheet is simply assets, liabilities and [indiscernible]  
15 certain point in time. Adding a new element at the bottom  
16 of the statement that does not meet one of the  
17 [indiscernible] is inappropriate and misleading. Rather,  
18 focusing on the closed group does not support the pay as  
19 you go financing of the trust fund.

20 Currently, the statement of social insurance has  
21 both the closed and open groups in user-friendly terms.  
22 These terms, current and future participants with the age  
23 ranges of the different group are on the base of the

1 statement. The proposed new [indiscernible] just move  
2 things around appears that these are not quite clear.

3 With respect to the new statement of changes in  
4 social insurance, we believe that this can be accomplished  
5 in a note to the financial statement or an RSI. We believe  
6 that cash flow projections currently stated in RSI  
7 addresses what most people want to know, and that is, at  
8 what point in time is it projected that the trust funds  
9 become exhausted under current law, that is currently the  
10 year 2041 [indiscernible].

11 However, if the board pursues a new statement,  
12 this should not be exclusive to the closed group. The open  
13 group is the basis of measurement for social insurance  
14 sustainability analysis, and the changes in social  
15 insurance for the Medicare and Social Security trustees  
16 reports. If we begin to report on a different group, it  
17 could cause significant confusion among readers.

18 [indiscernible] only reporting on the closed group seems  
19 that the program is closed to future participants and  
20 contradicts the [indiscernible] financing principles  
21 currently in place.

22 With respect to reporting on the accrued benefit  
23 obligations in the [indiscernible] statement, I do not

1 understand how this number will enhance the reader's  
2 comprehension of the Government's social insurance  
3 obligations. Further, as stated before, focusing on the  
4 closed group is counter-productive [indiscernible] the  
5 information already published on the social insurance  
6 program. In my office we have read this paragraph on the  
7 accrued benefit obligations several times and are  
8 struggling to understand the meaning and value of the  
9 number. If the board is going to pursue this number, care  
10 needs to be taken to clearly define how the number should  
11 be calculated and the usefulness of the number and what  
12 narrative should be around the number.

13 With respect to the open group versus the closed  
14 group, the board of trustees report [indiscernible] focuses  
15 on the open group pay as you go concept. Introducing a new  
16 presentation will make this statement more complex for  
17 individuals to understand and compare. Based for the  
18 financing of the trust funds, it seems logical to present  
19 the information consistently based on the open group. More  
20 specifically, taxes from future participants will be used  
21 to pay for benefits to current participants. It measures  
22 the extent to which future scheduled taxes will be  
23 sufficient to pay future scheduled benefits. If you

1       exclude the open group for reporting purposes, it could  
2       cause unwarranted harm and concern from individuals that do  
3       not fully understand the context of the statement and the  
4       groups of people included or excluded.

5               Lastly, any sensitivity analysis should be  
6       [indiscernible] the open group. I would like to conclude  
7       that we are confident that the change proposed by the board  
8       can be accomplished through [indiscernible] doesn't make  
9       sense. And our current budget environment, there are many  
10      programs competing for limited resources. At the Social  
11      Security Administration Office of Inspector General, we  
12      spend approximately \$4 million a year on the annual  
13      financial statement audit. This does not include any of  
14      the preparation costs. The proposals presented by the  
15      board will cost more money to [indiscernible] audit. The  
16      financial statement audit at SSA has regularly identified  
17      cost agents from fraud, waste or abuse. However, audit  
18      reports by the Office of Inspector General at SSA have  
19      identified almost \$14 billion in funds put to better use  
20      since the year 2000. So we do not see the value of using  
21      limited Government resources to provide funding for  
22      additional financial statement audit work.

23               And that's all I have.

1           MR. ALLEN: [indiscernible] started off asking a  
2 question, I was going to ask Steve. You made the same  
3 references as he did to the year 2041. So I'm a little  
4 surprised that there isn't some emphasis prior to the year  
5 2041. It basically takes the assumption that the \$4  
6 trillion is going to be paid back with no impact on  
7 citizens or anything else. It seems like to me when you  
8 have the challenges [indiscernible] comes much earlier than  
9 2041. And we ought to emphasize that, but like I say,  
10 Steve and you said, well, we don't have any problem until  
11 2041. Can you address that?

12           MS. VETTER: I don't have the exact words in  
13 front of me. I know it was in the comments that I  
14 provided. But all of this here [indiscernible] financial  
15 statements [indiscernible] Social Security and in that  
16 financial statement it has the words to the effect that  
17 something has to be done, that we cannot sustain paying  
18 these benefits. So then we go state down here  
19 [indiscernible] in the financial statement, we do put it  
20 out there to the public that we cannot continue in this  
21 way.

22           MR. ALLEN: I guess my point was that, and the  
23 statement, because I looked at mine several months ago, but

1 it does say the same thing, starting in the year 2041. My  
2 point was, or my question is, this is, I thought it was  
3 real money, but I was told by an economist there's no such  
4 thing as real money. We just make entries and it all  
5 balances out, I guess.

6 But to look at the Federal Government and to say  
7 that we have used that \$4 trillion of resources to fund  
8 other programs, we have, the \$4 trillion is now not  
9 available to fund other programs, and I have to repay, so I  
10 not only start with less money, but I've got to start  
11 repaying the borrowed money. It seems like to me that's  
12 when we have to sound the alarm, if you want, and make sure  
13 that policy-makers are starting to think about things. We  
14 weren't, as Steve said earlier, telling people you ought to  
15 advance fund this or anything. It's simply a matter of  
16 when the appropriate time to disclose the expected concerns  
17 takes places.

18 MS. VETTER: In the cash flow projections, in the  
19 current part, [indiscernible] talk about the year 2017 when  
20 the expenditures, when that time starts to level off. So  
21 there is some attention to it. Not as much as you would  
22 like, but --

23 MR. ALLEN: Well, I guess that was my, I thought

1 that was the crisis here, but you in your comments and  
2 actually [indiscernible] Steve did, my statement does, it's  
3 almost as if there isn't any concern in 2041.

4 Other questions? I don't mean to beat that point  
5 to death. Rich, do you have questions? Okay, Jim, sorry.

6 MR. PATTON : On page 6 of letter number 8, which  
7 maybe you didn't write, it says, in our opinion, this  
8 standard duplicates guidance contained in the projections  
9 ED. I just wondered what overlap you saw between the two  
10 and how it might be avoided.

11 MS. VETTER: I don't have that in front of me,  
12 and I apologize. I think the biggest thing was that if  
13 this sustainability [indiscernible] and emphasis on the  
14 social insurance trust fund and not other programs of the  
15 Government including people with [indiscernible]  
16 bureaucratic [indiscernible] statement and [indiscernible].

17 MR. PATTON: So if the projections only focused  
18 on social insurance, is that what you're saying?

19 MS. VETTER: Correct.

20 MR. PATTON: Okay, but it doesn't. So --

21 MS. VETTER: Well, as you have it illustrated, it  
22 has the social programs and then has other. And that's all  
23 it, in your current illustration, that's all it shows.



1 MR. PATTON: I see. Okay.

2 MR. ALLEN: Other questions?

3 MR. FAUTENROSE: With respect to the social  
4 insurance, you mentioned that the discussion of anticipated  
5 future events was too speculative for the MDNA, and that  
6 perhaps it should go in RSI. And the MDNA section is  
7 classified technically as RSI. So your point was that  
8 maybe it doesn't go in MDNA? Could you elaborate on that?

9 MS. VETTER: Well, there's already quite a few  
10 different alternatives in the current RSI. And the MDNA  
11 is, as we have it, is more of a high level, this is  
12 [indiscernible] information, this is what we do, this is  
13 our business, this is where we'd like to be. In the RSI,  
14 we get into some of those more technical projections and  
15 alternatives and things like that. We try to keep the MDNA  
16 in a user-friendly reader format. And I don't know, if you  
17 introduce those kinds of things to the [indiscernible]  
18 people might get lost and not continue on.

19 MR. ALLEN: All right. We appreciate it. Other  
20 comments or questions?

21 If not, we appreciate having the opportunity to  
22 hear from you and again, I'm hoping you will be available  
23 if we have additional written comments. Thank you very

1 much.

2 MR. MAZUR: Mr. Chairman, as I indicated before,  
3 I ask permission to have my worthy colleague, Eric Berman,  
4 who will be following my comments immediately, and I also  
5 wanted to have Anna Miller come to the table, because I  
6 would like to face her in front of all of you. She is the  
7 one who worked with the three of us to have us  
8 [indiscernible] our thoughts and if she'll come and  
9 [indiscernible].

10 Mr. Chairman, my name is Ed Mazur, and I'm here  
11 today to speak to you and your fellow board members on  
12 behalf of the financial [indiscernible] Board of the ATA.  
13 As you recall, we issued a letter of formal comment on  
14 February 10<sup>th</sup> and I am here to summarize our major  
15 conclusions and recommendations and also perhaps to add a  
16 little perspective.

17 MR. ALLEN: Before you start, can we have sort of  
18 the same focus, the sustainability focus, and then to the  
19 extent we can --

20 MR. MAZUR: We're going to do social insurance  
21 first.

22 MR. ALLEN: Okay.

23 MR. MAZUR: Because that's my half hour, so to

1 speak.

2 MR. ALLEN: Okay.

3 [Laughter.]

4 MR. MAZUR: If you ask a hard question and I  
5 can't answer, I'll turn it over to you.

6 MS. MILLER: Okay.

7 MR. BERMAN: But more importantly, Ed's become a  
8 grandfather.

9 MR. MAZUR: An hour ago.

10 [Applause.]

11 MR. MAZUR: Get out your checkbook.

12 [Laughter.]

13 MR. MAZUR: [indiscernible] subsidy.

14 MR. ALLEN: He just provided for his social  
15 insurance.

16 [Laughter.]

17 MR. MAZUR: I have displaced priorities by being  
18 here rather than sitting in the waiting room. But --

19 MR. JACKSON: We'll mention it to her when we get  
20 a chance.

21 [Laughter.]

22 MR. MAZUR: Our group really appreciates your  
23 efforts to continually go at this question of social

1 insurance [indiscernible]. However, I think it's our view  
2 that I'm going to express to you today that the time for  
3 continued gradualism, and please don't take that as a harsh  
4 criticism, but we sort of think the current ED shows some  
5 of that, in establishing effective reporting for social  
6 insurance costs is past. In fact, the day when any of us  
7 could take comfort in thinking about the fiscal health of  
8 this Country as a long-term consideration, that has clearly  
9 also passed. Tomorrow is today. In fact, for some of us,  
10 tomorrow was yesterday.

11 So we believe therefore that the changes in the  
12 reporting for social insurance that you now are  
13 contemplating really need to reflect the realities of today  
14 and go as far as you possibly can to setting the record  
15 straight as to the conditions and circumstances relating to  
16 our social insurance programs.

17 I do want to note quickly that it was  
18 [indiscernible] great deal in our ED that our board found  
19 that there were good, solid, additional proposed, or  
20 modified requirements. It does include requiring the  
21 social insurance component entities and the Government-wide  
22 entity to reflect discussion of a few measures in the MDNA.  
23 Excellent idea. The addition of a new summary section of

1 the statement of social insurance to present closed and  
2 open group measures, that was your question three. The  
3 addition of the new basic financial statement entitled  
4 Statement of Changes in Social Insurance, that was your  
5 question four, we think that's an excellent idea.

6 The disclosure of the accrued benefit obligation  
7 in the notes, question five, we agree with that. The  
8 emphasis on the closed group population relative to any  
9 reporting within the basic statements we think is  
10 appropriate, question seven. And finally, with question  
11 eight, your intention to allow additional flexibility in  
12 the [indiscernible].

13 For the remainder of my comments, what I'd like  
14 to do really is focus on the concerns and recommendations  
15 of our group relating to questions three and six. As a  
16 general [indiscernible] our group believes that neither the  
17 board nor ultimately the policy-makers can have it both  
18 ways. Today the consolidated basic statements of the U.S.,  
19 and here I mean the balance sheet and the statement of  
20 costs, do not reflect the obligation of the U.S. Government  
21 to recipients currently receiving social insurance  
22 benefits, much less to those who are qualified by  
23 completing 40 quarters of payments into the trust fund.

1 Yet the annual statements of social insurance  
2 administration to individual participants used such words  
3 as the following: your benefit will be based on our record  
4 of your lifetime earnings; we're more than a retirement  
5 program; social insurance is the largest source of income  
6 for most elderly Americans today; social insurance is a  
7 compact between the generations; in 2017 we will begin  
8 paying more benefits than we collect in taxes. And later  
9 it says by 2041, which is in reference to earlier today,  
10 the Social Security trust fund will be exhausted and there  
11 will be enough money to pay only 78 cents of each dollar  
12 [indiscernible].

13 Now, while serving as a member of this august  
14 body, back when Hal and I had darker hair, I sided with the  
15 argument that Social Security and Medicare were simply tax  
16 vehicles subject to change by Congress and therefore, could  
17 not be construed or constructed as a liability of the  
18 Government. However, I no longer hold that view, for  
19 reasons that I now share with the members of the group that  
20 I'm here speaking for.

21 The related concerns and recommendations of our  
22 group have, are significantly elaborated in our February  
23 10<sup>th</sup> letter, which mostly [indiscernible] look at. But

1 they're also informed by, I think, the following four  
2 observations as to [indiscernible]. The first is that the  
3 expansion of social insurance programs within the past  
4 eight years, there has been significant expansion and also  
5 significant growth, therefore projected obligations. There  
6 has been an absence of any concrete steps by policy-makers  
7 to provide additional long-term funding mechanisms for  
8 social insurance programs. The absence within the  
9 consolidated statements of a clear, unequivocal statement  
10 that social insurance does not constitute a liability, nor  
11 should any individuals citizens expect the articulated  
12 promises to be withheld, that's not there.

13 And finally, the current reliance of the Medicare  
14 trust fund and the conversion of a special category of  
15 Treasury securities into cash at a time of significant  
16 volatility within the market for publicly-held treasuries.  
17 I've noted that a number of the folks who preceded me to  
18 this table seem to take comfort in the fact that there is a  
19 trust fund and the trust fund has a balance. There's no  
20 balance. There's no thing there. And in order to backfill  
21 it, as we now have to do for Medicare and will in 2017 have  
22 to do again for Social Security, the Government's either  
23 going to have to raise income, short other expenditures, or

1 borrow more. So there's no comfort associated with that in  
2 our view.

3 So in consideration of these readily observable  
4 environmental factors, and with great consideration given  
5 to the pro and con statements which were, I think,  
6 excellently presented by all of you in the ED, our group  
7 asserts that any further obfuscation within the  
8 consolidated financial statements of the U.S. Government as  
9 to either the existence of or the lack thereof of a  
10 financial liability associated with at least some portion  
11 of social insurance would seem to be without justification  
12 today and a disservice to the concept of transparency.

13 As noted in our formal letter, those opinions  
14 within FASAB that would hold that some level of financial  
15 liability exists and should be reported on the balance  
16 sheet and reflected within the statement of net costs  
17 appear to be most in line with previously issued standards  
18 of the board in your concept statements. The opinions  
19 within the board that run to the contrary seem, in our  
20 view, to not abide by either the established notions of the  
21 board or governmental accounting theory. As the board  
22 works to identify an appropriate theoretical underpinning  
23 for its ultimate position on the liability issue, we



1 recommend for your consideration GSAB concept statement  
2 number five, elements of financial statements, as a  
3 possible, as possibly being helpful to the board in  
4 establishing a conceptual basis for when selected  
5 [indiscernible] non-exchange transactions can be associated  
6 with the recording and reporting of liabilities.

7 This statement, I have a copy here, opens the  
8 door during future standard-setting for GASB to segregating  
9 non-exchange transactions between those associated with  
10 either temporary benefits, such as unemployment benefits,  
11 or non-permanent populations, such as school-age children,  
12 for benefits intended to be permanent until end of life and  
13 for a fixed population. An example might be Medicaid  
14 patients who are medically disabled and without financial  
15 resources.

16 A similar logic may be appropriate to Social  
17 Security and Medicare beneficiaries who are fully qualified  
18 and permanently enrolled, and would permit the board to  
19 more comfortably reach the conclusion that a reportable  
20 liability exists. With these considerations in mind, we  
21 encourage the board to issue a revised statement requiring  
22 the reporting of a liability on the balance sheet  
23 associated with at least those citizens currently receiving

1 social insurance. Further, we urge you to develop a  
2 complementary mechanism for the reporting within the  
3 statement of net costs. Going forward, the impact with  
4 modifications to that liability and the amortization  
5 perhaps over a maximum of 30 years of past, accumulated and  
6 unfunded liabilities associated with current recipients.

7           Conversely, if the board should be disinclined to  
8 set such a requirement, we then recommend that it be made  
9 clear and mandatory for the preparers of the Federal  
10 consolidated annual financial report and the annual  
11 financial reports of the social insurance agencies to  
12 report within MDNA and within notes to the balance sheet  
13 and to the statement of net costs the following  
14 information: the specific nature and limitations of the  
15 authorizing legislation of social insurance programs; the  
16 absence of purposeful advance funding of future costs of  
17 programs and the present value of that funding obligation  
18 for the closed group, assuming no change in law; three, a  
19 statement clearly contrasting the basis of accounting for  
20 Federal social insurance programs, with the accounting for  
21 pension and OPED costs and liabilities of State and local  
22 governments; four, the likelihood that these programs will  
23 be reduced in future years due to the absence in funding;

1 five, the mechanisms built into the law that will require a  
2 formal reduction in Social Security and Medicare funding  
3 and benefits when certain circumstances occur; and finally,  
4 estimates of the year in which funding and benefits will be  
5 reduced for individuals currently receiving benefits under  
6 the program.

7 Mr. Chairman, I would now be pleased to take any  
8 questions you and your colleagues have.

9 MR. ALLEN: We'll open it up to questions.

10 MR. WERFEL: I'll get us started. I think the  
11 theme I want to play up is one which was brought up  
12 earlier, which is very important, I think, to me and to the  
13 board, that is, making sure that as standard-setters we  
14 don't lead to a certain policy that, as we set standards,  
15 we have to make sure that the presentation of information  
16 is objective and not pushing a particular agenda. And one  
17 of the concerns that I think the board has grappled with in  
18 the area of social insurance is whether by, is this  
19 question. Once you go beyond and exchange transaction, as  
20 it's defined today, and decide that you're going to build a  
21 liability beyond that, or incur liability beyond that, what  
22 are the appropriate parameters by which to set the limits  
23 of what you're going to count as a liability?

1           So clearly, there's something special about  
2   Social Security and Medicare that we have, that means that  
3   that's somewhere to potentially build that plan around.  
4   But what is it about Social Security and Medicare that  
5   makes it special? It's not just that it's funded out of  
6   payroll, because significant parts of Medicare are not out  
7   of payroll taxes, because significant parts of Medicare are  
8   not. It's not that the Government sends them some kind of  
9   benefit statement to keep their customer satisfaction  
10   ratings high, because that is clearly only a Social  
11   Security thing, not a Medicare thing.

12           One of the previous speakers talked about there  
13   being a moral exchange rather than a financial exchange.  
14   And my challenge is, and what I'd like you to comment on  
15   is, I think it's difficult for this board to figure out  
16   where that moral line is drawn and highlight something as a  
17   liability versus other. So there are other entitlement  
18   programs. Do we have a moral obligation that people should  
19   expect food stamps in future years? Do we have a moral  
20   obligation to provide for national defense? How do we  
21   figure out where to draw that line?

22           And I'll finish my question by tying it back to  
23   the mere disclosure on the balance sheet of this extra line

1 of social insurance, even though it's not incurred as a  
2 liability, by placing it on the balance sheet, are we not  
3 again highlighting a policy implication by doing that, by  
4 giving a special status to these types of payments versus  
5 others? So if the ship is sinking, throw the food stamp  
6 benefits off first, save the Medicare and Social Security?  
7 Are we setting that type of tone and how do we prevent from  
8 doing this?

9 MR. MAZUR: Well, it's a wonderful set of  
10 questions, really, and I think perhaps I may be able to  
11 offer a response. First of all, as to should standard-  
12 setting set policy or force policy, as a member of GASB,  
13 together with my colleagues, and I think Bob is still here,  
14 chairman of GASB, we had to face that when we came out with  
15 the OPEC standard. And there were a lot of people who  
16 fought that notion. But yet we said, and repeatedly said,  
17 we're not telling you to fund it, we're just telling you to  
18 account for it properly. So if you were to add liability,  
19 I think along the lines that we've suggested too, balance  
20 sheet and statement of costs, you're not telling anyone  
21 they have to fund it, and they certainly have not funded  
22 it. But you are perhaps accounting for it in a more  
23 effective way.

1           I would commend to you your own ED as far as that  
2   other part of the question and our summary of it, in our  
3   long letter of February 10<sup>th</sup>, because to me you make a  
4   strong case in there for why Social Security and Medicare  
5   benefits, or some group, are different. And I mentioned to  
6   you concept statement number four, I think I said five,  
7   forgive me, it's four, elements of financial statements.  
8   And the GASB goes to great pains to segregate out in good  
9   language that you might find very helpful the difference  
10   between political commitments and commitments to education  
11   and commitments to short-term benefits. I tried just now  
12   in my statement, and I'll make sure staff gets a copy of  
13   it, to segregate what appeals to me as a former standard-  
14   setter, and perhaps the answer to where we might go with  
15   this, and that is that there are non-exchange transactions  
16   that relate to temporary benefits and temporary groups,  
17   non-permanent groups. And I think they don't have to have  
18   a liability on the statements.

19           But when people are part of something that is to  
20   be permanent, they're a fixed population and the commitment  
21   has been voiced to them over a long period of time, I think  
22   you can then argue amongst yourselves and establish in your  
23   basis of conclusions a case for why you can see this as a

1 liability.

2 I think that, well, as somebody mentioned, a new  
3 grandchild. That child will grow up in a household, I  
4 assure you, as did my children, knowing full well that they  
5 are solely responsible for taking care of themselves in  
6 their older age and for taking care of their health  
7 coverage. They will understand that, because through their  
8 grandfathers and other things.

9 MR. JACKSON: You're not going to subsidize them,  
10 is that what you're saying?

11 [Laughter.]

12 MR. MAZUR: A lot of folks don't get that message  
13 today. A lot of folks don't get that message. And it will  
14 be when, and here I'm going off the mark here, but I think  
15 it will be when more of our citizens understand that they  
16 have a higher level of responsibility for their own  
17 welfare. And if putting things with solid justification  
18 where they belong in the financial statements helps policy-  
19 makers and citizens and the users of these statements, to  
20 make better judgments, then I think that that is more than  
21 justified. I hope that answers it. I tried.

22 MR. STEINBERG: Let me put the question another  
23 way. Because you had said that you felt the people that

1 hold the alternative view it does not abide with accounting  
2 theory, I expect you can appreciate that before you apply  
3 accounting theory you look at the nature of the programs,  
4 the nature of the transactions and so forth. The Federal  
5 Government has a number of programs that they call social  
6 insurance programs. Those are the programs that they  
7 established to replace income lost because of retirement,  
8 because of disability, because of unemployment, which  
9 evidently the States, as you just said, look at  
10 differently, because of debt, to help out, because of  
11 illness or injury.

12 This is only one type of many programs the  
13 Federal Government has. We provide national defense, we  
14 protect intellectual property, we provide for interstate  
15 commerce. And as David Walker said this morning, all of  
16 those are in the Constitution. The social insurance  
17 programs are not in the Constitution.

18 Some of these programs are supported by general  
19 tax revenues. Medicare Part B, Part D, is tax revenues.  
20 It's no contribution added, it's not an exchange  
21 transaction. These programs are not the only programs for  
22 which we put monies aside in trust funds. We have the  
23 Highway Trust Fund, we have the Airport and Airway



1 Improvement Trust Fund, we have the Superfund Trust Fund  
2 and so forth.

3 The annual notice that you held up before also  
4 says in there that the payment's limited to what's in the  
5 trust fund. And I'll take it a step further. Most younger  
6 people feel that they are not going to receive the benefits  
7 when they get old. So if the role of accounting principles  
8 is not to reflect public deceptions but to, particularly  
9 decisions that are mistaken, but it's to really rectify  
10 misconceptions, that's what we talked about, transparency  
11 and truth in accounting, could you consider that perhaps  
12 the social insurance programs could be accounted for and  
13 reported differently than all these other Government  
14 programs?

15 MR. MAZUR: Yes. And as to the first line in  
16 your question, that certainly was to point out that having  
17 this below the line reflection was difficult to find the  
18 basis for in your standards or your concepts. Hal, I think  
19 you've laid out the dilemma, and it's the dilemma before  
20 this board, and good minds and reasonable minds can make  
21 different conclusions. I think that you have, however you  
22 want to define it, you have a public pension arrangement, a  
23 public OPED arrangement here. And all of the

1 pronouncements, which is why I did raise this, the  
2 assurances and so forth, if you ask people, did they rely  
3 on these promises, yes, they did. Social Security knows  
4 that to be the case.

5           There's something more here than just the promise  
6 of providing temporary benefits to often a temporary  
7 population. These are permanent, end of life arrangements.  
8 And what we said in our paper and then now during the  
9 [indiscernible] here is go one way or the other. But don't  
10 continue where you are. If you decide as a majority you  
11 don't want to think of it as a liability, though I firmly  
12 believe you can structure a basis for that, or a majority  
13 of you can, if you don't, then strip out from your  
14 requirements that which today confuses so many readers of  
15 these statements.

16           MR. STEINBERG: So if I understand what you're  
17 saying is if we, a majority of the board, or unfortunately,  
18 if it's split, then we stay with what we have, if we don't  
19 believe that this is a pension or OPED program, which  
20 really it's not, a pension, you get a pension from me  
21 because you worked for me. Social Security, you didn't  
22 work for the Government, you are getting Social Security,  
23 you're getting Medicare because as I said earlier, the

1 Government has decided to replace income lost to debt,  
2 retirement, or to help out in case you're sick.

3 So what I hear you saying is, if the conclusion  
4 is that these are not pension [indiscernible] programs,  
5 then you wouldn't put that extra bottom line on the balance  
6 sheet [indiscernible].

7 MR. MAZUR: I wouldn't put it there, no. But we  
8 did have in our letter that you should have a note, you  
9 could put a note to and even on the face, a note explaining  
10 more than what you have.

11 MR. STEINBERG: Well, the notes are to the  
12 financial statement. We don't have notes in the individual  
13 statement. And I think it's already in the notes.

14 MR. MAZUR: Well, but again, if you go that way,  
15 you will leave people, I think, in the same position they  
16 are with every right to be terribly confused about the  
17 nature of this obligation of the Government to  
18 [indiscernible] the population.

19 MR. ALLEN: I have a bunch of people, Jim and  
20 then Nancy, but I would just point out, you mentioned a  
21 number of notes that we should have, add to our financial  
22 statement. We do have a note, one, under basis of  
23 accounting, that says we do not account for social

1 insurance under an accrual basis. So if you go back and  
2 read that --

3 MR. MAZUR: Yes.

4 MR. ALLEN: -- you will come up with  
5 [indiscernible].

6 MR. MAZUR: You do today. But in all other, in  
7 so many respects, not all, in so many other respects, the  
8 Government is presenting to these people who are out there  
9 relying on our promises and good intentions in a confusing  
10 manner. I mean, 99 out of 100 people, average folks on the  
11 street, are going to view it as public pension policy,  
12 regardless of the way the law is structured.

13 MR. ALLEN: Okay, Nancy, then Jim and Jeannette  
14 and then [indiscernible]. Then we lose our time.

15 MS. FLEETWOOD: My question was just that when  
16 you said if we don't see it as a liability, we don't see,  
17 at least the way I understood what you're saying, you don't  
18 like it on the balance sheet, you don't think it'  
19 appropriate as a one line thing on the balance sheet. So I  
20 guess a further question, you had mentioned putting it in  
21 as a note. I guess I wondered if there was a middle  
22 ground, if people don't see it as a liability but consider  
23 it significant information that needs to be disclosed and

1       then perhaps more prominence than a note would be  
2       appropriate. Did you consider anything in between that, or  
3       is it like it's on or it's off? I guess I wondered if you  
4       considered some other kind of statement that highlights it  
5       better.

6               MR. MAZUR: I'll ask Eric if he wants to weigh in  
7       here, but in the very beginning of my remarks, I said it's  
8       no longer time for gradualism. I think you have to sort of  
9       fish or cut bait, as my dad used to say. You either call  
10      it, that it isn't a liability at all and you scream that  
11      out in your financial statements and you make sure every  
12      American, at least in terms of what is reported,  
13      understands that it's nothing but a tax collection effort,  
14      period, and that there is nothing there to tax that on.  
15      There is no commitment to individuals to support those  
16      programs. Financially, in class financial terms.

17             Or you construct a basis for recognizing that at  
18      least for those people who are part of the program now who  
19      made their minds up as to how they would lead their future  
20      lives after a certain point that there is an obligation to  
21      at least those folks, which we recommend that there is.

22             MS. FLEETWOOD: But the [indiscernible] spot you  
23      see it as changing liabilities on a balance sheet? You

1 don't see anything in between? It's either change the  
2 liabilities on the balance sheet [indiscernible] --

3 MR. MAZUR: Well, your statement of social  
4 insurance right now, and then particularly as you will  
5 propose modifying it here, is full of information, is it  
6 not? I mean, it's not that you can't, it's not that a  
7 thoughtful person cannot read the statements without your  
8 changes and understand the significance of wow, there's a  
9 big commitment out there. It's just that in terms of the  
10 forthrightness with which the accounting and reporting is  
11 situated in this report, does it really tell clearly again,  
12 either that there is an obligation or there isn't. And  
13 that's, I think, where we today have this trouble. We  
14 think it's too suggestive that oh, you're going to get it  
15 but you're really not going to get it. Which is it?  
16 You've got to decide.

17 MR. ALLEN: Were you next, or Hal?

18 MR. SCHUMACHER: I believe I am, but I am going  
19 to involve Hal in this. I think Hal's summary, Mr. Mazur's  
20 position earlier was not exactly correct. Because you  
21 framed any liability that might be on the balance sheet for  
22 the social insurance in terms of an OPEB or pension. And I  
23 don't think there's any claim in the, at least in my view,

1 of what the liability would be, that it is a pension or --

2 MR. STEINBERG: : It's a term he used. I didn't  
3 use it. He said OPEB and pension.

4 MR. MAZUR: The public perception is that it's a  
5 public pension.

6 MR. SCHUMACHER: Okay, but I think, okay, then I  
7 would still put that on the record, that those, at least  
8 this person who would put it on the balance sheet as a  
9 liability does not see it as a pension or an OPEB.

10 MR. STEINBERG: It's not. Neither do I.

11 MR. SCHUMACHER: Okay. The second thing I would  
12 say to buttress Mr. Mazur's response to what Danny  
13 suggested earlier is, is there a line and on page 4 of  
14 letter 19, which is page 107 of 114 pages it says  
15 [indiscernible] paragraph A(19) of the exposure draft,  
16 which says basically it's a liability because the condition  
17 for receiving the benefits are substantially met when the  
18 participants are fully insured. So I think that was the  
19 line that would distinguish this from other things. And to  
20 the extent that food stamp programs also met that  
21 criterion, I would extend the logic to them. It doesn't  
22 extend, I think, to defense, providing defense. Because  
23 it's a different kind of program.

1           So although I would say I don't think you have to  
2 go as far as food stamps. In my comments, and again, I  
3 think if you take and read multiple times what's in this  
4 elements statement, you could see that through logic you  
5 can create a smaller population to which you can associate  
6 certain liabilities for non-exchange and such. Because I'm  
7 very used to the argument that was posed, which is, gee, if  
8 we open a tent for this one, you let everything else in.

9           And in all my writings on this subject, as some  
10 in this audience might be able to testify, I have tried  
11 passionately to say no. You do not need to open it, you  
12 don't need to say, 12 years of education is suddenly a  
13 liability, or you don't need to say defense is. You're  
14 talking about people, a fixed group of people at the end of  
15 their lives who qualified for a program and have relied  
16 upon it. It's a different question altogether, I think.  
17 Or you can make it so in your standards.

18           MR. SCHUMACHER: I appreciate that clarification.

19           MR. ALLEN: My brain's telling me that I promised  
20 Jeannette and then Hall. Go ahead.

21           MS. FRANZEL: It seems like we have a big public  
22 perception problem out there. We also have a public policy  
23 dilemma and we also don't want to sort of adjudicate these



1 things through the accounting standards. I think that's  
2 the principle that we've been discussing here. We don't  
3 want to sort of decide public policy through the accounting  
4 standards.

5 So if we have a perception problem out there, and  
6 therefore we want to make the accounting standards closer  
7 to the perception, I think we're making a public policy  
8 decision there. If we decide that we should record a  
9 liability, at least for the people already in the program,  
10 I think we're making a public policy decision there by  
11 saying, those people who are collecting now, they're going  
12 to get what they've been promised and everybody else is on  
13 their own.

14 I think this fixed group of people, we could make  
15 that argument with the school lunch program. You've got a  
16 fixed group of kids at the beginning of their lives, they  
17 need the school lunch program. So I think we really start  
18 by going down a difficult path here. But I think that the  
19 problems surrounding these social programs are so huge that  
20 we're getting drawn into those problems. And that's just a  
21 comment, I don't know if you want to respond to it, but  
22 that's how I'm interpreting what I'm hearing.

23 MR. MAZUR: Then if you really strongly feel that

1 way, I believe, we believe that you have to clarify far  
2 more than you do today in these statements that there is no  
3 liability. There is, say it, say it, put it in writing and  
4 put it out there. Are you going to be creating policy?  
5 No. I think by the concerns you have that you're not.

6 [Simultaneous conversations, laughter.]

7 MR. MAZUR: Tell the American people that there  
8 is no liability, that a trust fund isn't really a trust  
9 fund, et cetera.

10 MS. FRANZEL: I think that's the legally correct  
11 answer. What else do we have to stand on until some of  
12 these decisions get made?

13 MR. JACKSON: If you say it at the next election  
14 [indiscernible].

15 MR. STEINBERG: To change it just a little bit,  
16 David Walker and others this morning have said basically  
17 throw out the balance sheet. And you're suggesting putting  
18 more information on the balance sheet. I'm wondering if  
19 you can reconcile those two positions.

20 MR. MAZUR: Well, I think it's, in our mind it's  
21 a bit more straightforward in terms of coming up with a  
22 number, at least for that constrained group that you  
23 mentioned. To put it on the balance sheet, I think it's

1 more technically problematic as to how you would reflect  
2 going forward, which is what we suggest, some contribution  
3 of cost in the statement of net costs. I don't have a  
4 fully developed recommendation in that regard. I would be  
5 glad to try to write more about that later on.

6 MR. ALLEN: Woody, before I turn it over to you,  
7 one of our staff brings me this marvelous document. It was  
8 the original statement from Social Security, sent to  
9 everyone when the law was passed. And we'll make copies  
10 and share that. We talked about being candid, we've talked  
11 about all those things.

12 It is interesting, because [indiscernible] to  
13 see, okay, the communication wasn't that there was an  
14 exchange or not, because we talk about whether it's an  
15 exchange transaction or whether it's not, I mean, clearly  
16 it says, you will have had to work at least five years and  
17 earn a certain amount of money. The checks will come to  
18 you as a right. You will get them regardless of the amount  
19 of property or income you have.

20 MR. STEINBERG: The lawyers didn't look at that.

21 [Laughter.]

22 MR. ALLEN: I imagine they did, because this was  
23 the original statement sent to all citizens. So to me,

1       that is, when you talk about parameters of what is  
2       different, there is no other Federal program that makes  
3       that statement. So that is what you mean [indiscernible].

4               MR. MAZUR: That language continues in spirit and  
5       in substance today.

6               MR. ALLEN: But when you talk about the intent of  
7       the law originally, it was to set that out as a program  
8       unique from any other Federal program.

9               Woody, go ahead.

10              MR. JACKSON: I just have maybe a couple of  
11       questions. One, do we know how Canada accounts for their  
12       health care program? Do they view the health care program  
13       of the Canadian government a liability? I'm just picking  
14       the health care program, because we're talking about  
15       Medicare. But I look at their health care program as being  
16       much broader, and the people, they've got a right to that  
17       program, let's just say.

18              MR. MAZUR: I personally do not, but I can refer  
19       staff to what I think many of us heard last Thursday or  
20       Friday, and I know someone got up, and I can't remember who  
21       it was, and talked for a few minutes at the AGA National  
22       Agent conference about how other governments, national  
23       governments --

1 [Simultaneous conversations.]

2 MR. JACKSON: Right. I think there's some  
3 uniqueness. I don't think other governments count this  
4 stuff [indiscernible].

5 MR. MAZUR: It caught my ear that there was  
6 something perhaps to look at.

7 MR. JACKSON: Right. And the only reason I bring  
8 that up, we talked about this before, but I don't believe,  
9 I was doing some work elsewhere last year, I think it's  
10 when I went on my little trip to China and we did some  
11 research on the international standards and so forth,  
12 government standards. I don't think there was any  
13 liability recognition going on with regard to this. But  
14 then, I asked that question, because it just dawned on me  
15 when we were focusing on Medicare.

16 And I wanted to ask another question, actually,  
17 just sort of a continuation. I've caught on to Tom's  
18 trick. So every time I have a question, it's abbreviated  
19 by a semicolon, not a period.

20 [Laughter.]

21 MR. ALLEN: David Walker mentioned earlier today  
22 that his view was that he wanted to recognize a liability  
23 or deferred revenue for those bonds that were, the special

1 bonds. And I forget how many trillion dollars there are.  
2 But what we've got is a situation where we've recognized  
3 revenue that really is money that should have been set  
4 aside. And I don't mean that in the case of dollars set  
5 aside, or separately invested. For the program, for the  
6 program. And he characterized this very carefully this  
7 morning when he said, these benefits, he wants to recognize  
8 the liability or deferred revenue for all those Treasury  
9 securities being held on behalf of Social Security, and he  
10 mentioned this program as, that these monies are not for me  
11 or for the individual, but they are promises that there are  
12 monies that have been collected for the benefit of the  
13 program, and they should not have been used for defense or  
14 something else, when you get right down to it.

15 And therefore, he would push for the recognition  
16 of that debt in some fashion on the face of the balance  
17 sheet, which in a way would be a surrogate. It's not a  
18 surrogate for the total, for a liability, if you will, for  
19 the earned benefits. But, so I would like to sort of get  
20 your reaction to that. If you noticed the way, though, he  
21 characterized, you weren't here at the time, I don't think  
22 --

23 MR. MAZUR: I'm familiar with the

1 [indiscernible].

2 MR. JACKSON: But he characterized, the  
3 collections are for the program and the dedicated  
4 collection for the program, much like the Highway Trust  
5 Fund, arguably, earmarked, and not for, and it doesn't  
6 entitle me specifically to a benefit.

7 Mr. MAZUR: I understand. Well, and these are  
8 just my personal reflections, because the group did not  
9 deal specifically with that question. But I find that an  
10 appealing notion, and I would encourage the board to take  
11 it under serious consideration. Because as [indiscernible]  
12 earlier mentioned, you can't see on the financial  
13 statements its intergovernmental liability and asset. And  
14 small irony, Woody, is that, remember our previous  
15 President wanted to privatize at least some portion of  
16 Social Security, right? And --

17 MR. JACKSON: I'm glad he didn't invest it in the  
18 stock market.

19 MR. MAZUR: Well, you know, but let me say  
20 something. Had all, had those \$3 trillion or \$4 trillion  
21 been invested in the stock market, and the stock market has  
22 lost 45 percent of its value, at least you would have, in  
23 theory, 55 percent sitting there in cash. Today, all you

1 have is a piece of paper in West Virginia that says, IOU.

2 So I think you should give some consideration to  
3 that.

4 MR. JACKSON: My thought is, though, I was, I  
5 found appealing, given all the debate, I found appealing  
6 his comment, it just resonated with me, let me put it that  
7 way, it resonated with me the notion that the payments into  
8 the system by the current working force, those payments are  
9 commitments to fund the benefits of whomever. And it  
10 doesn't necessarily entitle me to a particular benefit,  
11 similar to an OPEB. That was the drift that I got from  
12 what was being said.

13 MR. ALLEN: Thank you, Ed.

14 Did you notice last night [indiscernible]  
15 individual savings accounts?

16 MR. JACKSON: No, actually, I was at YMCA  
17 listening to it, and I was pounding away [indiscernible].

18 MR. ALLEN: He did say that [indiscernible]  
19 individual savings.

20 MR. JACKSON: He did? Maybe I'd better take a  
21 [indiscernible].

22 MR. BERMAN: Certainly the comment that Ed just  
23 said, you know, about the stock market losing money, hit



1 home. I am going to be one of the few and the proud that  
2 is not a member of Social Security, because the  
3 Commonwealth of Massachusetts' pension system was  
4 established before 1935, and is therefore grandfathered.  
5 So I only pay into Social Security with my Schedule C  
6 meager income that I have.

7 MR. ALLEN: If it's just a another form of  
8 taxing, why don't you have to pay into Social Security?

9 MR. BERMAN: I don't. Our laws were  
10 grandfathered in before 1935.

11 MR. ALLEN: But that has nothing to do with it.  
12 It's just another program, and it's just another way of  
13 collecting taxes. You ought to be paying in.

14 MR. BERMAN: Given that our pension system lost  
15 about 30 some odd percent, and we went from \$50 billion in  
16 assets down to about 30, 30 and change --

17 MR. JACKSON: You may wish you weren't  
18 grandfathered in --

19 [Simultaneous conversations, laughter.]

20 MR. BERMAN: So in any case, good afternoon to  
21 the distinguished members of the board. It's truly an  
22 honor to be here. I'm here to stay the FMSB's official  
23 position and not the Commonwealth of Massachusetts. As a

1 commonwealth, the Commonwealth of Massachusetts will have  
2 no official position on either of the exposure drafts.  
3 However, all of us at citizens, all of us are citizens and  
4 we may have personal views on the exposure draft language.  
5 I'll be more than happy to state my own personal views on a  
6 particular subject, and you will note those views as  
7 personal, not of the FMSB or the Commonwealth's official  
8 position.

9           So why is a deputy state controller speaking  
10 today in front of the Federal Accounting Standards Advisory  
11 Board? Well, if there's one thing that the recently-  
12 established Partnership for Intergovernmental Management  
13 and Accountability has taught us, it is that all levels of  
14 government are intertwined. If the Federal Government  
15 catches a cold, the States catch the flu and local  
16 governments catch pneumonia and taxpayers ultimately hold  
17 us responsible. Indeed, we are all responsible for the  
18 cold, flu and pneumonia.

19           Between Ed, David Walker and Ed may say me, there  
20 are few people in America who know as much about or speak  
21 as much about fiscal sustainability and keep the topic on  
22 the front burner, even though our Country is facing  
23 profound economic challenges, as outlined last night in the

1 President's speech. Those challenges are made even more  
2 daunting because America's fiscal instability existed long  
3 before our current economic crisis started over a year ago.

4 The FMSB sent the board a letter on December 23<sup>rd</sup>,  
5 2008, expressing their overall satisfaction with the fiscal  
6 sustainability exposure draft. This is an extremely  
7 difficult subject to tackle. Indeed, a politician deserves  
8 a profound courage award to disclose that a particular  
9 program just is not affordable. No taxpayer wants to pay  
10 any more taxes than he or she has to.

11 But the long-term fiscal health of our Country is  
12 a story to tell over and over again, in as many forms and  
13 as many forums as possible. Indeed, I make a lot of  
14 speeches about new accounting statements. But over the  
15 past two or three years, I've always spent a portion of the  
16 time talking about our fiscal house of cards. The concerns  
17 are addressed by few of the FMSB board members centered on  
18 a potential bias in the numbers, in a challenge by  
19 macroeconomic theorists of the projections. You heard some  
20 of those this morning. Indeed, any projection or  
21 prediction is inherently flawed, be it a long-term fiscal  
22 projection or tomorrow's lottery number. But if rules are  
23 established on creation of those projections, the risk of

1 error becomes that much lower.

2 Those members suggested a separate report on  
3 fiscal sustainability from the consolidated financial  
4 report. Therefore, the projections would be separate from  
5 financial results, notes and required supplementary  
6 information. One thing is for certain: accountants get a  
7 bit nervous when they are not looking at tangible reality.

8 The board asked us to answer 15 questions in the  
9 draft. Rather than reiterating each question followed by  
10 our answers, some of the highlights of our thoughts include  
11 the following. When accountants do projections and  
12 transmit them to non-accountants, at the very least, some  
13 guidelines need to be disclosed to the receiver. We  
14 suggest that these assumptions and guidelines need to be  
15 prominently displayed.

16 We also suggest that if the projections involve a  
17 very conservative or very favorable position that those  
18 assumptions be disclosed. In the Commonwealth, we do this  
19 for our auditors with workers compensation accruals, and  
20 Medicaid accruals, which are nothing more than shorter time  
21 frame projections. In the Commonwealth's OPED projections,  
22 we coridored our health care costs prime rate assumptions  
23 in calculated accruals based on that variability.

1           The second point, disclosure can be a blessing in  
2       disguise. On the one hand, the current buzz word is  
3       transparency. On the other, too much disclosure and the  
4       reader gets lost. Some of my own entity's advisory board  
5       members remarked to me over a year ago that our  
6       Commonwealth's footnotes had gotten laborious and  
7       unreadable. This year, we actually cut about eight pages  
8       out, even though we had new standard to implement.

9           For what is proposed, if you look at paragraph  
10      42, in the item disclosing rising costs of health care  
11      demographic trends and how those factors have changed and  
12      are expected to change over time are probably best  
13      described in a narrative rather than potentially repetitive  
14      or hard to discern tables. Item B, the historical and  
15      projected transfer of projection, for progression of years  
16      for at least 20 years before the current fiscal year, and  
17      extending to all future years for projection for receipts,  
18      spending, deficits and Treasury debt as a share of GDP are  
19      the most important facts and trends to be included.

20           From a personal standpoint, it's my view that I  
21      would suggest looking at the effect of inflation in the  
22      numbers going back two years. We look at that, where we  
23      take a look at our own tax projections in the Commonwealth.

1 I thought maybe to include the so-called run-out dates with  
2 an area, or a table of each aspect of the long-term fiscal  
3 drains to show the reader exactly when the debt service and  
4 social insurance will not be paid for out of current funds.  
5 In our own Commonwealth, we have a table in the back of our  
6 financial reports, we call the budget busters. And it's a  
7 table of 10 different items and programs that have been  
8 named everything from higher education to Medicaid and a  
9 10-year trend schedule in anticipation of the variability.

10 The next point, the FMSB members had a few issues  
11 with the fiscal gap disclosure. If anything, the  
12 requirements are a bit too flexible, and the related  
13 illustrative disclosure is not clear, nor is it  
14 understandable, at least in the FMSB's mind. We suggest  
15 that the disclosure should be how much debt is sustainable  
16 and what level of debt is appropriate according to  
17 economists in a ratio similar to debt to GDP ratio  
18 discussed in frequently asked question three.

19 Then we suggest that the percentage be  
20 incremented in 25-year intervals for the life of the  
21 projection. We then suggested additional line items  
22 stemming to fiscal imbalance. When I describe about how  
23 our Commonwealth is doing over a long period of time, we

1 talk about structural imbalances or structural balances. A  
2 simple concept, revenue less spending, other sources and  
3 uses. Those sources and uses being primarily issuance and  
4 repayment of debt. So the Federal Government can translate  
5 those projections to our citizens, per capita amounts are  
6 absolutely a must. They need to have it.

7 As discussed in the basis for conclusions,  
8 developing a time horizon is difficult. Just how far into  
9 the future is it practical to calculate and predict? We  
10 suggest that the board consult with one of the  
11 macroeconomists who have spoken today and make a decision.  
12 But an arbitrary horizon would be 100 years.

13 But whatever is decided, make it one horizon.  
14 More than one, you've doubled your data and it's already  
15 cumbersome for the reader to deal with. We suggest that  
16 the nomenclature used in titles should not include the word  
17 statement or the phrase financial statement. We suggest  
18 the phrase, projections for long-term fiscal  
19 sustainability. That describes exactly what it is.  
20 Financial statement suggests that there's a balance sheet,  
21 a statement of revenues and expenditures and cash flows.  
22 All those statements articulated some way one to the other.  
23 Projections do none of the sort, nor are they meant to do

1 the sort.

2 Alternative scenarios can be overly complex.

3 What is the reader to glean from these scenarios? We  
4 believe that the assumptions in paragraph 42 really  
5 suffice.

6 Another item. We find the frequently asked  
7 questions to be very helpful. And yes, they should be  
8 adopted and expanded upon by the Treasury. My first  
9 reaction to reading them was to see if we can develop some  
10 of them for our own financial reports, see if our citizens  
11 understand them better. They are in the process of being  
12 drafted, with the hope of putting them on our website as  
13 soon as possible. So you've really provided us a good  
14 notion to get started on.

15 Contrary to what Professor Mosler said this  
16 morning, our board believes that question 13 is one of the  
17 most important disclosures that can be done. We cannot  
18 underestimate the problem that we have in foreign ownership  
19 of our debt. It threatens our Country's economic security.  
20 If this recession gets much worse, globally at some point,  
21 it's the feeling of our board that our creditors will ask  
22 for their principal back. Some of those creditors are not  
23 entirely our friends.



1           As of November 30<sup>th</sup>, 2008, we know that \$10.7  
2 trillion of debt was outstanding, and a good portion of  
3 that was obviously the IOUs, as Ed talked about. And I'm  
4 sure you know that of the \$6.4 trillion that is left over,  
5 nearly half of that was held by countries other than the  
6 United States, China, OPEC nations, Iran. This is  
7 astounding. It is truly in our national interest to expose  
8 this as much as possible, not only to expose it, but to  
9 change it through a program of national investment.

10           The most important war facing us in the future  
11 may not be fought with munitions. In my mind, it will be  
12 fought with currency.

13           Making projections may cause policy changes and  
14 suggestions in the form of narratives, discussions and  
15 analysis. But one thing my boss always warns me to do is  
16 stick to the facts in our management's discussion and  
17 analysis. Due to the complexity of the Federal Government  
18 and its politics, who shall write the policy alternatives  
19 of the fiscal GAAP as part of RSI? Is that OMB? Is that  
20 Treasury? Is that GAO or FASAB? Each will have a  
21 different perspective, if you think about it. And any one  
22 of those perspectives can be divisive to another. Should  
23 this proposal become a statement, someone's going to have

1 to make that decision. And from my perspective, I'm not  
2 sure it will be the board. It could be any number of  
3 people.

4 A couple of thoughts on sustainability to wrap up  
5 before I'll answer your questions. We've entered an era of  
6 transparency and immediate access to information from our  
7 Government. The President has made that clear in his  
8 campaign, and he's affirmed transparency in the ARRA.  
9 States will have to start loading data in less than 120  
10 days, and I hope to talk to Danny after this meeting, to  
11 show the American people are serious about transparency.  
12 We want to do this. But with this information, imagine the  
13 decisions that could be made from the sort of disclosure  
14 that can be handled, this sort of disclosure, if it was  
15 handled in a uniform manner.

16 How about realistic budgets, including the cost  
17 of social insurance, so that we can edge back to fiscal  
18 balance? How about a challenge to the U.S. Treasury to  
19 embark on a plan to match debt life to asset life, instead  
20 of doing this a bit backwards, therefore hampering  
21 sustainability? How about a joint committee of Congress on  
22 fiscal responsibility comprised of Ways and Means members  
23 from both parties? We could build an operational framework

1 of sustainability for the future.

2 How about a nationwide discussion building upon  
3 the successful intergovernmental partnership already in  
4 place between the Federal Government, States and  
5 municipalities, all focused on sustainability of  
6 Government? We have to do these things and others, or else  
7 Government as we know it may only exist to pay for debt  
8 service and social insurance programs in my lifetime. To  
9 deliver this message, we need to be as clear and concise as  
10 possible.

11 I will spend a few minutes discussing how best to  
12 explain intergenerational equity with the least amount of  
13 complexity. What a world we have left our children and our  
14 grandchildren. My father's and my grandfather's generation  
15 and generations before them had a code of honor to leave  
16 the world a better place. I'm not sure we're on the same  
17 path for my daughter's generation. Certainly the numbers  
18 don't get us there. As bad as these numbers are today,  
19 they will assuredly get worse over the next two years,  
20 until we have achieved a sustained recovery or a  
21 fundamental change in how the Federal Government generates  
22 revenues and fund its programs.

23 We can't achieve these goals without portraying

1       where we are and where we are going in an understandable  
2       manner to decision-makers and citizens. What the board has  
3       proposed is a bold first step. There will be naysayers,  
4       and indeed, the AGA FMSB was absolutely not 100 percent in  
5       favor of this statement. But a step needs to be taken.

6               Therefore, I invite your questions.

7               MS. WERFEL: Just a quick, trying to reconcile  
8       your comments with something in the written statement. You  
9       expressed concern about calling this a statement. But then  
10      in your written statement, you indicate you supported the  
11      recommendation to convert this from RSI to basic after  
12      three years. Is one, I guess the question I have is, is  
13      one solution to your concern about calling this a statement  
14      is to keep it an RSI in perpetuity? Or do you feel like we  
15      don't run into that problem by making it a basic statement,  
16      as long as we just don't call it a statement?

17              MR. BERMAN: That's an excellent question, Danny.  
18      First of all, the board was a little bit split on this one.  
19      The board, it wasn't 50-50, but they were split. Some had  
20      the views of leaving it in as a basic financial statement,  
21      others, as I said, well, make it either RSI or something  
22      even lower than that. And I think that's the nature of our  
23      board, is that we have differing levels of Federal, State

1 and local members, as well as our auditors.

2 My own personal viewpoint is that unless it  
3 articulates to something else in the basic financial  
4 statements, that it should be a schedule. A schedule, be  
5 it as we have it at the State level, we have a schedule of  
6 statistics that is ostensibly required supplementary  
7 information, if a government produces a CAFR. Or have it  
8 as other supplementary information. Certainly we were  
9 fractured on that.

10 MR. WERFEL: Thank you.

11 MR. ALLEN: Can I just keep following up on that  
12 in terms of earlier commenters, and even some of our board  
13 members have indicated, now, this is the most important  
14 whatever you call it, financial statement or  
15 [indiscernible] information or whatever we have. The  
16 challenge that we have, not calling it a financial  
17 statement becomes quite a bit one of placement. You can  
18 title it something other than a financial statement. But  
19 if you're going to treat it as a basic statement, if you're  
20 going to have somewhere close to the front, because other  
21 than MDNA, remember, everything else comes after both the  
22 statements and the footnote. So we're now to page 167  
23 before we're seeing the schedule that is viewed as the most

1 important bit of information, to some people. So for that  
2 reason, I believe it was very important, that's part of the  
3 argument for calling it a basic statement with a different  
4 title.

5 So I don't know whether you have thoughts on how  
6 you can get it where you want it in a very prominent place  
7 and still put it into the schedule, or maybe I'm just  
8 giving too much credence to current structure. Maybe there  
9 are no standards that say you can't start with a schedule  
10 before your financial statement. I don't know.

11 MR. BERMAN: Mr. Chairman, I have a thought in  
12 the fact that some governments do performance measure  
13 reports and they issue them separately from their financial  
14 reports. And a prime example is New York City. It  
15 releases a very large performance measure report that's  
16 freely available. And it's a part of, I think it even  
17 started when New York City came out of bankruptcy, or one  
18 of the provisions of coming out of bankruptcy was do a very  
19 robust performance measure report.

20 Something, whatever the final form of this  
21 schedule or statement comes into being, that could be some  
22 form of vehicle, a separate entity that exists outside of  
23 the financial reporting framework of the Federal

1 Government. Since especially if the numbers are not going  
2 to articulate directly to what is on the Federal  
3 Government's balance sheet or inflows and outflows  
4 statement, especially in that case, if the final intent  
5 that the FASAB releases is to articulate that indeed, I  
6 think then the schedule would become more elevated within  
7 the financial reporting framework of the financial  
8 statements.

9 MR. ALLEN: In a very un-traditional way, that's  
10 the link we've tried to put in this introductory MDNA  
11 information of highlights. Because that's really the only  
12 place we link our [indiscernible] together, is in that  
13 highlights section.

14 MS. FRANZEL: We've been here all morning  
15 listening to the comments, and some of these comments deal  
16 with sort of how we take the whole and try to do a  
17 projection but really we're highlighting just a few  
18 programs in this whole. And we've talked about some of the  
19 issues, or people have brought out issues about that, about  
20 the interest and about assuming everything else stays the  
21 same, et cetera.

22 So I'm intrigued by, you mentioned you have a  
23 section in your report called budget busters?

1 MR. BERMAN: Right.

2 MS. FRANZEL: Can you just explain a little bit  
3 more about what part of your report that is in, and is it  
4 audited, and what kind of criteria do you use to articulate  
5 those?

6 MR. BERMAN: That is in our statutory basis  
7 report, which is budgetary based. It's largely modified  
8 cash with the exception of accruals that are made for  
9 Federal Government receipts that are received after June  
10 30<sup>th</sup> for goods and services or activities that happen before  
11 June 30<sup>th</sup>. So it's statutorily defined.

12 The budget busters were defined back in 1990 when  
13 we had a fiscal crisis back then, at the end of Governor  
14 Dukakis' administration. And they were defined as the  
15 things that drive the overall costs of government up that  
16 are totally unsustainable. And at that time, as they still  
17 are, it's Medicaid, higher education, pensions, group  
18 health insurance costs, and public safety, a number of  
19 other things that are in there, that encompass probably  
20 about 80 to 85 percent of our budgeted operations, that are  
21 within these 8 to 10 programs that are there. And there's  
22 some stuff that swaps in and out on an annual basis, debt  
23 service, obviously is in there as well.



1           And we keep track of those, and we have since  
2   1990 and essentially use trend rates and analyze them as  
3   part of our discussion and analysis section. But again, it  
4   is part of our statutory report. We replicate it as an  
5   other supplementary information schedule in the back of our  
6   CAFR, as part of our statistics.

7           MR. ALLEN: Danny?

8           MR. WERFEL: You were here during when Professor  
9   Galbraith, the professors from Texas and Cambridge, one of  
10   their, if I understood them correctly, and I didn't follow  
11   everything, they were implying a couple of different  
12   things. They implied that first of all, there was kind of  
13   a need to present the sustainability statement as a balance  
14   sheet, if we're going to do it, we should have assets and  
15   liabilities next to each other. And they were struggling  
16   with the fact that it did not present some of these  
17   parameters.

18           But they also said something about, if I  
19   understood correctly, about expressing skepticism that a  
20   foreign investor or otherwise could look at this financial  
21   statement or look at our financial statements and decide  
22   not to purchase the U.S. Treasury. And as they were  
23   talking, I was starting to think about State governments,

1 and where your financial statements are critically  
2 important to your bond rating. I'm not that familiar with  
3 that process. I'm wondering if you could comment about  
4 whether this statement, whether when bond raters are  
5 looking at State level financial statements, are they just  
6 looking at net position or balance sheets, or are they  
7 looking at other related areas, whether they're budget  
8 busters or other things? And if so, is the sustainability  
9 statement that we're considering aligned with that, or is  
10 this something that's likely to be ignored? Because at the  
11 end of the day, I think what we're trying to do is  
12 correctly portray the fiscal health of the United States  
13 Government. And I'm trying to make a parallel here to how  
14 someone might view a set of State government financial  
15 statements to make that assessment to what we're doing.

16 MR. BERMAN: Sure. That's an excellent question.  
17 Bond rating agencies, of course, change the rules depending  
18 on which level of government, depending on the credit that  
19 they're looking at. We just, we're in the middle of the  
20 rating agency process. We do it every spring. We just  
21 sold some debt last week, thank God. The credit markets  
22 allowed us to sell half a billion dollars in debt.

23 The bond rating agencies have different

1 viewpoints. One of the issues that I think you touched  
2 upon is, what do you look at more, the balance sheet or the  
3 income statement. That was a major topic of discussion  
4 with regard to OPEC and putting OPEC valuations as part of  
5 our financial reporting with the implementation of  
6 Statement 43 and 45. One of the big fears was, oh, boy,  
7 our bond ratings are going to go straight down the tubes,  
8 because we're throwing this big liability on our balance  
9 sheets.

10 Well, that hasn't happened as of yet, and most  
11 large governments have implemented Statement 45. And so I  
12 think that most of the rating agencies, speaking from my  
13 own personal experience of dealing with them, most of the  
14 rating agencies will say, okay, your liabilities are only  
15 one piece of the pie. They're going to take a look at what  
16 are your income tax flows, what are your cash flows, what's  
17 your cash position, how are you using that cash, what is  
18 the management structure, is the management structure  
19 making good decisions, and various other items.

20 The issue that the Federal Government faces,  
21 though, is really quite different, because you really don't  
22 have ratings. You're automatically assumed to be a AAA,  
23 because you have a little printing press down here on 14<sup>th</sup>

1 Street, which I don't have. In Colonial times, we did have  
2 a printing press, but you guys wrote us a loss --

3 [Laughter, simultaneous conversations.]

4 MR. JACKSON: You may still have it, you're just  
5 not using it.

6 MR. WERFEL: Every once in a while, there's an  
7 article written in the Wall Street Journal or otherwise, it  
8 happens about once every eight or nine months. And someone  
9 who is either associated with Standard and Poors or Moody  
10 makes some kind of comment about our sustainability issues  
11 and our AAA bond rating. I'm kind of conjecturing it's a  
12 good read, but it does come up.

13 I just wanted to get a sense of whether the  
14 sustainability statement, my concern, coming out of the  
15 session this morning with the economist from Texas was that  
16 the providing of value to the, to people that would be  
17 looking at our financial statements from the standpoint of,  
18 is this a healthy investment, and there is skepticism that  
19 anyone would look at the financial statements in that way  
20 from the U.S., at the U.S. level. I don't know, just  
21 something that kind of caught my attention and I'm trying  
22 to think through it.

23 MR. BERMAN: Yes, I was trying to reconcile that

1       when Professor Mosler said that. I was trying to reconcile  
2       that one in my brain as well, because I cannot foresee any  
3       situation where some investor would not see that, a U.S.  
4       Treasury bill, not to be a good investment, unless there is  
5       absolute dire inflation or absolute dire calamitous  
6       collapse of the governmental system that we hold dear  
7       today. And I just can't see that happening.

8               MR. ALLEN: You went through these discussions,  
9       too, interesting, Danny, I was the chairman when we were  
10      considering this standard when we met with each of the  
11      three bond raters to ask specifically the question that  
12      you've just asked, what is the impact going to be. And we  
13      were told, we like it not because it tells you where you  
14      are, whether where you are right now is important. We like  
15      it because it is the marker that we can track where you're  
16      going from here. And so that's what's important, the  
17      trend. Are they addressing it or is it getting worse?

18             MR. BERMAN: Last Friday, when Tom and Bob Dacey  
19      spoke to this national leadership conference, and during  
20      the Q&A, I did make a recommendation to Bob that you all  
21      might consider adding to the portfolio of information in  
22      the sustainability analysis some form of projection as to  
23      the world, global capacity to purchase ever-higher levels

1 of our obligations. That has been a serious consideration  
2 of mine for almost a year now, and that concern has really  
3 been elevated. Whether some people think it's a good  
4 investment or not, you look at the competitive needs of  
5 other countries and also restrictions on diversification  
6 rules of other investors, I think you may find there's a  
7 dollar limit past which the world will not go in buying our  
8 Treasuries.

9 MR. ALLEN: Comments? David?

10 MR. TORREGROSE: I was just going to add, we've  
11 had both Standard and Poors and Moody's come by and talk  
12 about long-range projections. I have asked specifically if  
13 they look at the financial report, and they say yes. But I  
14 said, well, what about Social Security and Medicare, and  
15 they said, we know it's not sustainable, we just assume  
16 something will be done, which isn't very encouraging in  
17 some respects.

18 But there are credit default [indiscernible]  
19 markets for sovereign debt, and the price on the U.S. has  
20 been rising, on the U.S. I'm not sure why and I'm not, I  
21 don't know who's rising it, because I would think the  
22 counterparty risk is greater than the underlying risk that  
23 [indiscernible] talked about.

1 MS. FLEETWOOD: I had a question on another line.  
2 I was just trying to reconcile in my mind between the two  
3 presentations, because they're both, you're talking about  
4 really saw this as a projection of fiscal sustainability  
5 really, and didn't really want to call it a statement,  
6 wanted to have it as a separate kind of document. And of  
7 course, the main thing we've got right now that's impacting  
8 this projection of fiscal sustainability is really the  
9 statement of social insurance or the social insurance  
10 commitments or obligation or liability, depending on how  
11 you want to look at it. Although I know we want to cover  
12 other things.

13 Then I guess I'm going back to Ed's presentation  
14 where, it's like, it's either a liability or it's off  
15 entirely. And they don't reconcile to me. Because I'm  
16 thinking about them, okay, well, if it's okay to be a  
17 projection of fiscal sustainability, what's wrong with  
18 projection of social insurance futures? They seem in  
19 conflict to me, because one is being presented one way and  
20 one's like black and white the other way. It just doesn't  
21 meld in my mind between the two presentations.

22 MR. BERMAN: Yes, I certainly got that feeling as  
23 well, reading the letters from the social insurance, folks

1       who commented on the social insurance is that we were  
2       pretty fractured. But my own personal viewpoint is that if  
3       you use the word statement, some readers who are very  
4       compulsive, I would say, would want to look for, okay,  
5       what's my assets and what's my liability. In a statement  
6       of social insurance, what is your asset? You can't go down  
7       to the old GAAP root, as the chairman would remember, of  
8       the amount to be provided. I mean, what's the amount to be  
9       provided? The future tax revenue? What's the value of  
10      that future tax revenue?

11               MS. FLEETWOOD: I guess my question really, just  
12      to change your answer a little bit, because I want to make  
13      sure that I'm communicating well with you. Following your  
14      logic of projection, I'm agreeing with you, let's make it  
15      even a separate document, or even at a prime place, we  
16      changed the order of our document. It strikes me, if you  
17      follow that logic, the logic of, okay, if we don't feel  
18      comfortable putting it on the balance sheet because we  
19      don't see it as an actual liability if you look at the  
20      definition, let's say, there's some in this group that feel  
21      this way, I'm not sure how it's all going to play out in  
22      the end.

23               But the idea of having a projection of that, I



1 don't think people would be too concerned about that,  
2 because then you're portraying it in a way that takes it  
3 into account. So I guess I'm asking you about the social  
4 insurance, even though you're up here talking about fiscal  
5 sustainability. Because it seems like it's related to  
6 that. I guess I'd like your reaction to that. Are you  
7 feeling the same way, that it's either got to be a  
8 liability or it's got to be off the thing, or can you see  
9 it as a projection as well? I don't know.

10 MR. BERMAN: My own personal viewpoint is that I  
11 really think that the various social insurance programs, as  
12 enumerated, are indeed liabilities. That's my own personal  
13 viewpoint. There is a compact between somebody who pays  
14 into Social Security every paycheck and the Federal  
15 Government since 1935 that at some point, be it with an IOU  
16 or something else, there will be money in a fund to pay for  
17 it. I certainly agree with former Comptroller General  
18 Walker, the fact that all that's in there right now is an  
19 IOU. And again, I personally believe that it is a  
20 liability. I personally believe that OPEC is a liability,  
21 in the fact that there is a relationship, be it through  
22 union contract or law, depending on which State you're  
23 talking about, or which governmental jurisdiction you're

1 talking about, that the employer has made with the employee  
2 as a benefit for working. I absolutely believe that.

3 Do I believe that other long-term constitutional  
4 programs, such as defense and that are liabilities as well?  
5 No. Because if anything, those are almost one-way  
6 transactions, rather than two-way transactions.

7 MR. ALLEN: Thank you very much. We appreciate  
8 the opportunity of having you here.

9 We're going to take a five-minute break.

10 [Recess.]

11 MR. ALLEN: Our next speaker represents truth,  
12 justice and the American way, I guess, The Institute for  
13 Truth in Accounting.

14 MS. WEINBERG: I didn't wear my Wonder Woman  
15 outfit --

16 [Laughter.]

17 MS. WEINBERG: Thank you, Mr. Chairman and fellow  
18 FASAB members. My name is Sheila Weinberg, and I am the  
19 founder and CEO of the Institute for Truth in Accounting.

20 You've heard from numerous people today who are  
21 working or have worked for the Federal Government or other  
22 governmental entities. Because of my humility, I'm  
23 hesitant to infer that I am the only speaker here today who

1 truly represents the ordinary citizen outside the  
2 Washington, D.C. area. Please consider these facts: this  
3 process is happening in the seat of the Federal Government,  
4 which is far away from the vast majority of our huge  
5 Country. Most Americans are busy, working hard to stay  
6 ahead during these strenuous economic times. And most  
7 people can't afford the time or the resources to join us  
8 here today.

9 As the list of people testifying today  
10 demonstrates, the ordinary working Joe or Josephine does  
11 not have the -- and I use this term loosely -- does not  
12 have the luxury and resources to pay for a hotel room and  
13 buy a plane ticket to travel to their Nation's capital to  
14 comment on standards, accounting standards that affect tens  
15 of trillions of taxpayer dollars and their personal  
16 retirement security. I am fortunate to be able to commit  
17 my own personal time and money to speak to you today.

18 So as you consider the testimony you hear today  
19 and the written testimony on these two important exposure  
20 drafts, please keep in mind that you have not heard from  
21 the true representation of Joe six-pack, Joe the plumber,  
22 or just the ordinary men and women and children of the  
23 United States of America. So I will do my best to give you

1 an idea of what they may think of these proposed standards.

2 First, I'd like to give you some history on  
3 budget deficits myself in the Institute. I started working  
4 on Federal budget and accounting issues in 1992. At that  
5 point, budget deficits had reached an all-time high -- and  
6 now we look at those as the good old days -- an all-time  
7 high of \$290 billion. By 1997, the budget deficit was only  
8 \$22 billion.

9 On January 27<sup>th</sup>, 1998, in his State of the Union  
10 address, President William Jefferson Clinton expressed his  
11 commitment to strengthen Social Security by stating that we  
12 must put Social Security first. At this point, he started  
13 an education campaign to the public about the program and  
14 the long-term sustainability. He was smart enough to know  
15 that if he just came out and said, we're going to raise  
16 taxes or cut benefits, they had experience with Medicare,  
17 that that would just be demagogued to death.

18 So he understood that we needed a year of  
19 education, letting the people know exactly how these  
20 programs worked, what they can expect, the problems with  
21 the sustainability.

22 This education program was going along smoothly  
23 when lo and behold, on May 26<sup>th</sup>, 1998, President Clinton

1 announced a \$39 billion projected annual budget surplus and  
2 a \$150 billion surplus projected over the next 10 years.  
3 Later, it was projected that we would have surpluses as far  
4 as the eye could see.

5 When President Clinton made this announcement,  
6 the Social Security First education program stopped. They  
7 had done three of four educational programs, seminars, they  
8 never did the fourth. And any of Social Security reform  
9 was buried. After all, Americans thought we had hundreds  
10 of billions of dollars, if not trillions, sitting around in  
11 Washington just waiting to be spent. We could just use  
12 that to fix Social Security and pretty much do anything  
13 else we wanted to.

14 The cloaked surpluses continued for the next  
15 couple of years. But something was troubling me and the  
16 audiences I was giving speeches to. How could we be  
17 running surpluses while the debt was going up at the same  
18 time? As an accountant, this made no sense to me. So I  
19 spent a whole summer digging through the 197-page Federal  
20 budget to investigate this. I don't remember why I didn't  
21 have something better to do that summer.

22 But in the fall, I'd come to the conclusion that  
23 we were really not running surpluses. Any surplus money

1 was already allocated to Social Security and other so-  
2 called trust funds. Professor Hal Jackson's study found  
3 that if we accounted for Social Security on an accrual  
4 basis as it should be, we were actually running a half of a  
5 trillion dollar deficit.

6 Then came the 2000 Presidential election. The  
7 use of the cloaked surpluses became a big campaign issue.  
8 Woody, you might have voted for George W. Bush because he  
9 was going to return the surplus to the taxpayers in the  
10 form of a tax cut.

11 MR. JACKSON: You're not suggesting I did vote  
12 for him? Or not, one way or the other.

13 [Laughter.]

14 MS. WEINBERG: Or Alan, you may have voted for  
15 President Al Gore, because he was going to use some of the  
16 surpluses for tax cuts, some for spending and put some of  
17 us, and put the Social Security surplus in the lock box.  
18 We all remember that.

19 But I knew that if you did the accounting  
20 properly, there was no surplus. And that is why I started  
21 the Institute for Truth in Accounting. I understood that  
22 the American people had elected the leader of the largest  
23 financial organization in the world, the Federal

1 Government, based on fuzzy math. The facts were that we  
2 did not have surpluses, we actually had more than \$3.5  
3 trillion of public debt and more than \$20 trillion of  
4 unfunded liabilities for Social Security and Medicare. But  
5 instead of focusing on how the Country would deal with  
6 these unfunded liabilities, especially in light of the baby  
7 boomer retirement coming, the campaign focused on how these  
8 fictitious surpluses would be spent.

9 These examples serve to illustrate the fact that  
10 how you account for surpluses and deficits does matter.

11 As I've previously testified, I must highlight  
12 our concern over the independence of FASAB and its ability  
13 to set unbiased standards. The heart of the accounting  
14 standards process is the standard-setting body and the soul  
15 of that body is independence. Because of the size and  
16 complexity of the Government, the public has limited access  
17 to its financial information. As Thomas Jefferson once  
18 said, an informed electorate is the basis of a sound  
19 democracy.

20 But it is impossible for our citizens to be  
21 knowledgeable participants in their Government if they are  
22 not given relevant, accurate, objective and non-political  
23 information. The heart of such information is unbiased

1       accounting standards. The information reported using these  
2       standards must not be skewed to the advantage of elected  
3       officials, their appointees and employees or any political  
4       entities. The selection of the FASAB members and the  
5       procedures used to set standards must facilitate neutrality  
6       and objectivity.

7               On November 26<sup>th</sup>, FSABA issued a document entitled  
8       Clarifying FASAB's Near-Term Role in Achieving the  
9       Objectives of Federal Financial Accounting. This document  
10      correctly noted that independence has been identified as  
11      the most critical for GAAP standard-setters. The 2008  
12      FASAB Facts stated that to accomplish its mission, the  
13      FASAB has to be objective, neutral and ensure as much as  
14      possible that the information resulting from its proposed  
15      standards is a faithful representation of the effects of  
16      the Federal Government activities.

17             This document continues that objective and  
18      neutral means free from bias, precluding the FASAB from  
19      placing any particular interest above the interests of the  
20      many who rely on the information contained in the financial  
21      report. To ensure public confidence, the independence of  
22      FASAB needs to be above question.

23             Many question the FASAB's objectivity and



1       neutrality. Significant political consequences may result  
2       from the information reported on the Federal financial  
3       statements. The three principals are appointed to their  
4       position by elected officials and four board members are  
5       employed by elected officials.

6               Because most of the principals and Federal  
7       members of the board hold their positions based on the  
8       relationship to the elected officials, they have a vested  
9       interest in the content and format of the information  
10      reported to the voting public. The clear conflict of  
11      interest faced by the Federal Government employees places  
12      them in an awkward and untenable position when considering  
13      decisions that have a direct or indirect impact on their  
14      agencies and virtually all of FASAB's decisions have a  
15      direct impact on those members' employees.

16              This is especially true with the proposed  
17      standards we discussed today. These standards cannot be  
18      tainted by the vested interest of any political group  
19      inside or outside the Government. The influence of the  
20      governmental officials were questioned the last time the  
21      board debated whether Social Security should be recorded as  
22      a liability.

23              In a document December 21<sup>st</sup>, 2000, Fact Alert from

1 the Concord Coalition, titled The Case of the Missing  
2 Liability, the Concord Coalition noted that the requirement  
3 to report the social insurance liability as a liability on  
4 the balance sheet was, and I quote "dropped at the  
5 insistence of the Administration which does not want the  
6 public to focus on the liability number."

7 From the first time I heard about FASAB, I have  
8 been concerned about the board's lack of independence.  
9 Government officials have the authority to appoint members  
10 to the Governmental Accounting Standards Board. I  
11 equivocate this to the auditors and the accountants of  
12 General Motors determining what General motors will report  
13 on their financial statement.

14 In 1999, my concerns over FASAB's independence  
15 was echoed by your current chairman, Tom Allen, then the  
16 head of GASB; Edmund Jenkins, the head of the FASB; and  
17 Manuel Johnson, the then-head of the Financial Accounting  
18 Foundation. These well-respected gentlemen stated that the  
19 FASAB contained several members who clearly lacked  
20 independence. The FASBAB members' lack of independence had  
21 concerned them about the stature and credibility of all  
22 GAAP. And these gentlemen were greatly concerned about the  
23 principals' ability to veto the standards.

1           During the deliberation of the current social  
2 insurance standard, my apprehension about the board's  
3 independence has been heightened. Here is how the process  
4 looks to me as an outsider. It appears that in the fall of  
5 2006, the public members of the board agreed that a social  
6 insurance liability should appear on the Federal balance  
7 sheet, and a corresponding expenses should appear on the  
8 "income statement." Usually, when such a consensus of the  
9 board is reached, it issues an exposure draft for the  
10 public's review. But since the Federal embers of the FASAB  
11 strongly believe that the liability should not be recorded  
12 as a liability, and the related costs should not be  
13 reported, a "preliminary views" document was issued in  
14 October of 2006. Six months later, the board held a public  
15 hearing to hear testimony about the preliminary views  
16 document. And finally, in November of 2008, an exposure  
17 draft was issued. And now, here we have a hearing on the  
18 exposure draft.

19           Now, let's look at what has happened to FASAB  
20 since all of the public members concluded that the social  
21 insurance liability should be reported on the balance  
22 sheet. As an outsider, to me, it appears to me that the  
23 Federal Government did not want sunlight to be shed on the

1       \$59 trillion liability. So what did the Government do?

2               I described this situation to my husband, who I  
3       can tell you is more than sick of hearing about Federal  
4       accounting and budgeting issues. And he said it sounded  
5       like jury tampering to him. And jury tampering is the  
6       undue attempt to influence the composition and/or decision  
7       of a jury during the course of a trial to get a desired  
8       outcome. Jury tampering undermines the public confidence  
9       in the deliberation process, the verdict and the whole  
10      judicial system.

11             It appears that the FASAB principals issued the  
12      preliminary views document as part of a stall technique.  
13      They stalled the process until new members could be  
14      appointed to the board. Because in October of 2006, all  
15      public members wanted the Social Security liability to be  
16      reported. And since that date, two of the "public"  
17      members, both of whom are former deputy controllers of OMB  
18      and Federal members of FASAB have now become members of the  
19      board.

20             Now, surprisingly, the Board is no longer  
21      proposing a standard that would report the social insurance  
22      liability on the balance sheet. In addition, there are  
23      rumored reports of possible principal veto if the standard

1 proposing the balance sheet reporting is given to them.

2           The influencing of the board's composition and  
3 the attempt to influence the FASAB decisions has left me  
4 with little confidence in this deliberation process, the  
5 final standard that will be issued and the whole Federal  
6 Government accounting standard-setting process. I feel  
7 very disheartened. I feel foolish that I have used my  
8 money, my own money, not the Institute's money, because for  
9 some reason, people will not contribute to the Institute,  
10 it's not a sexy topic. I have used my own money to pay for  
11 my trip here from the heartland and used my time and effort  
12 to respond to the exposure drafts before you.

13           But since I'm here, I will have comments on the  
14 two exposure drafts. First, some brief comments on the  
15 exposure draft for fiscal sustainability. I believe that  
16 the basic statement should be titled Statement of Fiscal  
17 Sustainability. One of your suggestions had it called a  
18 statement of financial condition. If you recorded the  
19 Social Security liability, social insurance liability  
20 programs on the balance sheet, that would be the statement  
21 of financial condition.

22           Paragraph 38 of your exposure draft says that  
23 "The information may be provided in a single debt to GDP

1 ratio." The executive summary smartly discusses the  
2 concept of inter-period equity. Obviously, this concept  
3 means that one generation should not have the ability to  
4 pass the debt to another generation.

5 Assuming that the GDP grows, which in these times  
6 may not be a great assumption, then the debt could grow and  
7 the debt to GDP ratio would stay the same. This is  
8 contrary to the generational concept of no debt being  
9 incurred.

10 As a member of the Fiscal Sustainability  
11 Communication Task Force, I must remind the board to keep  
12 the information presented as simple as possible to avoid  
13 overwhelming the reader. Also keep in mind that in this  
14 modern day of technology, the basic information can be  
15 easily linked to more detailed information. I like the  
16 basic financial statement's statement of long-term  
17 projections for the United States Government, even though I  
18 would call it the financial statement for fiscal  
19 sustainability. And I believe it would confuse the  
20 unsophisticated reader of the financial statements.

21 The verbiage about the actions that would need to  
22 be taken to avoid unsustainable levels of Federal debt is  
23 good. I always worry about the use of the term GDP. But

1 the simple explanation at the bottom of the proposed basic  
2 financial statement is a good one.

3 I would be hesitant to put specific program  
4 titles in the standard and the basic financial statement.  
5 Because if new or other programs become larger than the  
6 specified programs, then they would be recorded in a  
7 combined number with all other governmental spending. I  
8 would advise that you consider something like programs over  
9 X percent of total receipts and spending needs to be  
10 detailed. I also believe that the infinite horizon period  
11 should be recorded.

12 Politicians seem to be very creative. As we've  
13 experienced, when the Government does projections for five  
14 or ten years, it figured out that if they just put into law  
15 that we're going to increase something in the 11<sup>th</sup> year,  
16 that they can avoid the budget constraint. So by using the  
17 infinite time horizon requirement, the standard will not  
18 allow for such trickery in financial sustainability  
19 reporting. I.e., I would foresee the legislature mandating  
20 a massive tax increase to fund the social insurance  
21 benefits in year 76, thereby reducing the current present  
22 value.

23 Now on to the social insurance exposure draft. I

1 strongly believe that the social insurance "commitment"  
2 should be an amount reported as a liability on the basic  
3 financial statement, and that related costs should be  
4 reported as an expense on the statement of net income.

5 Transparency, not translucency, was the goal of  
6 the board when it set out in 2003 to improve on how the  
7 social insurance should be recorded. Social insurance  
8 liabilities are set through continuing appropriations.  
9 Congressional action is needed to increase or decrease  
10 these benefits. Government officials have argued here that  
11 they can alter or even cancel promised Social Security and  
12 Medicare benefits; therefore, these benefits cannot be a  
13 liability. It is true that these benefits are legislative  
14 entitlements and not a contract. But these programs are  
15 contributory in nature. It is a permanent appropriation  
16 and it is immensely popular, has always been immensely  
17 popular, and even given a special protected status.

18 Does anybody seriously doubt that the Social  
19 Security unfunded promises constitute some governmental  
20 obligation? There is a fundamental contradiction in the  
21 Administration and other governmental officials' position.  
22 If it is believed that there is no social insurance  
23 liability, why does it endorse terminology such as "trust



1 funds" and "insured status" and "earned benefits" that  
2 imply that Social Security is a property right? When  
3 arguing in its case to experts, the Administration and  
4 others stressed that Social Security benefits can be  
5 canceled at any time. When talking to the public, they  
6 insist that the Social Security is a sacred contract.  
7 A constructive debate depends on honest argument and honest  
8 numbers. It is time to stop the double talk and focus on  
9 the true numbers.

10 Reporting the social insurance liability on the  
11 face of the balance sheet or related costs on a statement  
12 of net costs would allow the public and their elected  
13 officials to straightforwardly identify increases or  
14 decreases in promised benefits. Then the public could  
15 easily evaluate their elected officials' decision to adjust  
16 these benefits. Unfortunately, because of board  
17 manipulation, the proposed standard is like frosted glass,  
18 translucent. Translucent in that it permits light to be  
19 passed through but it is diffusing, so that the numbers are  
20 not clearly visible.

21 This is what I believe, that someone should do an  
22 official survey and ask the public if they believe Social  
23 Security and Medicare are a liability of the Federal

1 Government. In my personal survey, everyone is dumbfounded  
2 when the hear that these liabilities are not on the  
3 Government's balance sheet. But I usually talk to business  
4 people, so I tried to think about what the woman on the  
5 street would think about this. I assume that a woman on  
6 the street would whip out her BlackBerry and look up the  
7 definition of these terms on Dictionary.com. And I have  
8 handed you those definitions.

9 A liability, she would find, is defined as monies  
10 owed, debt and financial obligation. I don't use the word  
11 they use, because I'm so nervous I can't pronounce it. An  
12 obligation, the one I found most applicable to this  
13 situation is a binding promise, contract or sense of duty.  
14 And most people think of these programs in terms of  
15 entitlements. And there again, the entitlements, I'll  
16 focus on the last one, is a right to a guaranteed benefit  
17 under a program, as Social Security and Medicare. I did  
18 not add, as Social Security and Medicare. That was on the  
19 website.

20 And then focusing on the word guaranteed, a  
21 guarantee is a promise, and then a commitment. We get back  
22 to a promise and an obligation. So we kind of go full  
23 circle here that a liability is an obligation, a commitment

1 is an obligation. They're all promises. It looks like  
2 we're going to play with what do you mean by "is" in this  
3 situation.

4 You are proposing using the term social insurance  
5 commitment at the bottom of the balance sheet. So that is  
6 why I looked up the word commitment there, and found that  
7 it also discusses an obligation, just like a liability  
8 discusses.

9 Now back to the discussion about accounting for,  
10 how accounting for the deficits matter. Just like a  
11 corporation's bottom line or earnings per share, it is what  
12 the people pay attention to: the deficit number.

13 In his Presidential address last night, President  
14 Obama noted that he will cut the debt in half for the next  
15 four years. And I did not plant this, I found this on the  
16 train on the way over here from my hotel, Obama Vows To  
17 Half The Deficit. The deficit's term matters, the deficits  
18 matter, but I [indiscernible] give you my opinion on that.

19 Let's look at the deficit calculation sheets that  
20 I have given you. Those are the schedules. The first  
21 schedule, the deficit amounts. The first line is the  
22 budget surplus for 2003-2004. And you'll notice that the  
23 deficit increased by 10 percent that year. As you look at

1 the net costs, on the bottom sheet of those two, the  
2 statement of activities for those two years, the deficit  
3 amount actually decreased by 8 percent.

4 If the net cost for social insurance was  
5 included, you will note highlight the 2004 \$11 trillion was  
6 added to what was the deficit that year. So instead of  
7 reporting a \$52 billion surplus or a \$37.5 billion deficit,  
8 what we consider the true deficit was \$11 trillion. I  
9 think I got my numbers mixed up there. But obviously the  
10 number is higher. And I believe that this information  
11 gives the public information they need about that important  
12 prescription drug decision that was made, not whether they  
13 were for or against it, but just what happened to our  
14 deficits and to our Country's financial condition in  
15 relation to that.

16 MR. ALLEN: Sheila, I don't meant to cut you off,  
17 but our time is getting a little bit short. Could I get  
18 you to describe a little bit, there's an overall  
19 perspective statement that you've given us.

20 MS. WEINBERG: Yes.

21 MR. ALLEN: Is that a recommendation of how we  
22 could deal with it? And then ask you to be open to some  
23 questions from the board for the remaining time? Is that

1 all right?

2 MS. WEINBERG: Sure, I think that would be all  
3 right.

4 MR. ALLEN: We do have the written comments  
5 you've given us, and we do appreciate that, as well as your  
6 service on this project.

7 MS. WEINBERG: I [indiscernible] those too many  
8 but I will give those [indiscernible]. I can just flip  
9 over.

10 We refer this, to this schedule, fondly, as page  
11 11. It was included in the MDNA in 2004. It was in there  
12 in 2003 and 2004. Honestly, when this schedule came out, I  
13 thought a large part of the Institute's mission was done.  
14 I'm like, finally, the Government is going to be  
15 transparent.

16 But unfortunately, this schedule was not put in,  
17 was removed from the 2005 report, and we have not seen it  
18 again.

19 I also prepared for you the key measure schedule,  
20 which I think more clearly lays out the key measures,  
21 especially the unified budget deficit as it compares to the  
22 net operating costs. And then I will take questions.  
23 Thank you for your time.

1           MR. ALLEN: I do want you to know we have been  
2 chastised. We do appreciate your service on the task force  
3 that led us to this project on sustainability and we  
4 appreciate your feedback on that, as well as the feedback  
5 on all of these projects.

6           In terms of the proposal, the compromise, if you  
7 will, much of what is in this table if key measures is  
8 actually included as part of the required MDNA. So I'm  
9 assuming that you would be supportive of that aspect.

10          MS. WEINBERG: I just didn't like the format.  
11 This is a better format.

12          MR. ALLEN: All right, so this is your  
13 recommendation for a better format for that. Okay.

14          Let me open it up to other questions that people  
15 may have. Questions of any of the board members?

16          Go ahead, Jim.

17          MR. PATTON: In your submitted testimony on the  
18 projections, you seem to be not very fond of the  
19 illustrations that were provided in the appendix, the  
20 illustrations we provided. Do you not have a copy?

21          MS. WEINBERG: I do in my [indiscernible]. I  
22 remember them.

23          MR. PATTON: Well, some of them, on 1 to 5, where

1 1 is bad and 5 is real good, goes to at least a 3, but  
2 nobody got above a 3. I wonder if you had any particular  
3 suggestions on sort of what was wrong with them and what  
4 might be done. Or if you're not prepared to do that now --

5 MS. WEINBERG: That's all right. I think that  
6 the major thing is that just understandability of trying to  
7 get this information in a format for people to understand.  
8 I just, I thought the scheduling was, I think they used in  
9 the conference of, what is that MEGO, you know, my eyes  
10 glazed over. And I consider myself a sophisticated person  
11 in these matters. So mostly just readability and  
12 understandability for the average person.

13 MR. PATTON: Okay, thank you.

14 MR. ALLEN: In your response to the question of,  
15 and I think, we clearly know your opinions from your  
16 testimony a few years ago, of liability or not, but as it  
17 relates to the schedule, part of the compromise proposal,  
18 if you will, had a line below the balance sheet that was  
19 based on the closed measure. I see from your response you  
20 support that, but I didn't get any overall comment about,  
21 you know, it isn't even worth putting there at all, or I  
22 understand [indiscernible], it's not my first choice, but  
23 if you aren't going to put it as a liability, put it there.

1 Or I'd just assume, if you're not going to put it as a  
2 liability you don't put it anywhere.

3 Can you response to, do you think it helps by  
4 adding that line on the balance sheet? Does it move the  
5 ball down the field? It doesn't get to where you want to  
6 go, but does it provide valuable additional information or  
7 not?

8 MS. WEINBERG: I think it would, obviously you  
9 know what I want. If that is not the choice of the board,  
10 then putting it on the face of the balance sheet would be  
11 advantageous. Again, we noted that the further down you go  
12 in those financial statements, the less likely people, the  
13 ten of us will [indiscernible] are going to be.

14 I would also like to comment, sorry to divert, on  
15 the concept that David Walker proposed this morning, which  
16 I unfortunately was not here for, putting the trust fund  
17 debt on the, as a liability. Currently, people are having  
18 Social Security taxes taken out of their pay checks. And  
19 as we know, those taxes are not put in the trust fund.  
20 Those are used for current goods and services.

21 If those taxes did not exist, other taxes would  
22 have to be increased for the current generation, for lack  
23 of better term, set of taxpayers.



1 MR. JACKSON: To pay Social Security?

2 MS. WEINBERG: To pay everything. Because right  
3 now, Social Security money --

4 MR. JACKSON: Is being used to subsidize  
5 [indiscernible].

6 MS. WEINBERG: Right, is being used to subsidize  
7 the rest of the Government.

8 Or spending would have to be decreased for the  
9 current generation of taxpayers. Therefore, the current  
10 generation of taxpayers is already receiving, I don't know  
11 what's the right term to use, but benefit from those taxes  
12 that they're paying. Because otherwise they'd be paying  
13 other taxes or benefits would be decreased. The  
14 politicians are just lying to them that their Social  
15 Security taxes that are going into the trust fund and then  
16 you're going to get them back.

17 So if you look ahead, when the trust funds flip,  
18 and there's no longer any theoretical surpluses, then those  
19 bonds are going to have to be redeemed. And I don't think  
20 it is right that the next generation should have to pay  
21 higher taxes or have Government spending cut just because  
22 the past generation elected people who lied to them about  
23 what is happening. The future generation, I'm very nervous

1 about what's going to happen with these "trust funds" is  
2 that the retirees at that time, when those funds, those  
3 bonds have to be redeemed, is going to go to Treasury and  
4 say, and Congress and say, we have a first mortgage on the  
5 Country and you must pay these benefits before you pay  
6 anything else. I don't care if you have to raise taxes, we  
7 don't care if you have to cut education, we don't care if  
8 you have to cut roads. We paid into the system, we deserve  
9 it back.

10 Well, they were lied to. And the future  
11 generation shouldn't be punished because this current  
12 generation, the current taxpayers now, elected officials  
13 who continually lied to them.

14 MR. ALLEN: Woody?

15 MR. JACKSON: I'll keep it brief. I just want to  
16 react to that. Having been around for too long, actually,  
17 I'm eligible for Social Security. I don't draw it yet.  
18 I'm hoping that the Government will be able to pay when I  
19 decide to draw it.

20 But I'm struck by that notion, Sheila, that folks  
21 have been lied to. I just feel compelled to react to that,  
22 because I just don't really subscribe to that. And I say  
23 that to you in good conscience. I have heard repeatedly

1       that we've talked about lock boxes and trust funds and  
2       stuff like this. But I have, as long as I've been around,  
3       I have heard over the years, I've heard said and I've read  
4       and I can't cite you song and verse right now, but I've  
5       heard said over and over again in a very public way that  
6       these are pay as you go systems. This has been a pay as  
7       you go system. And I can speak to you from my personal  
8       past, which you alluded to a while ago, that some people  
9       who are very knowledgeable and committed to the longevity  
10      of Social Security have reiterated to me personally, based  
11      on their experience in the Congress and in the executive  
12      agencies that this is just, really is an income transfer  
13      program.

14               And I'm not making an argument that it's not a  
15      liability. I'm not making that argument. I'm just  
16      reacting to the notion that, I don't subscribe to the  
17      notion that people have been lied to. I think that's, I  
18      will say that I don't think, and I think that this board is  
19      making dramatic progress in trying to get information  
20      available to the public with regard to the ability of this  
21      Government to meet these commitments or whatever they're  
22      called over the long haul.

23               But I just, I just really felt compelled to react

1 to the use of that particular word, because I just really  
2 don't think that's fair. I really don't. We're here  
3 talking about liability measurement, and I, and there is, I  
4 think, a reasoned debate on that. But I just say that  
5 because I just don't that's, I just don't think that's the  
6 right word.

7 MS. WEINBERG: That comment is based on a lot of  
8 things. But I just prepared my W-2s for some employees,  
9 and on the W-2s it clearly states that Social Security is  
10 withdrawn.

11 MR. JACKSON: It's a contribution. It's a tax.  
12 It's a tax.

13 MS. WEINBERG: Again, I think we can debate that.  
14 But --

15 MR. JACKSON: Yes. I think --

16 [Simultaneous conversations.]

17 MR. ALLEN: What I'd like to do --

18 MS. WEINBERG: -- disconnect between what people  
19 in Washington think --

20 MR. JACKSON: I understand.

21 MS. WEINBERG: -- and what the rest of the  
22 Country thinks.

23 MR. ALLEN: We've got two other people who have

1        comments, but we do need to move on. Would you be willing  
2        to take comments, written comments and then respond back in  
3        writing and we can share that with the whole board?

4                MS. WEINBERG: That would be fine.

5                MR. ALLEN: Thank you. Appreciate that very  
6        much.

7                MS. WEINBERG: Thank you for your time. And  
8        thank you for your efforts in trying to bring light on this  
9        subject.

10               MR. JACKSON: Thank you, Sheila.

11               MR. ALLEN: Representative Cooper, we'll turn the  
12        floor over to you. What we would ask you is the same thing  
13        we've asked everybody else, go ahead and make some  
14        comments, but please allow us enough some time to ask you  
15        questions about why you feel the way you do.

16               MR. COOPER: Thank you, Chairman Allen, members  
17        of the board. I appreciate the outstanding work that FASAB  
18        does, and I like the compromise you've come up with. It's  
19        wonderful to have a good discussion [indiscernible] and the  
20        MDNA. I think it's very nice to have a separate line item  
21        on the balance sheet. I'm a little disappointed it's below  
22        the net position instead of above, but I'll take what I can  
23        get.

1 [Laughter.]

2 MR. ALLEN: You must be a politician.

3 MR. COOPER: I view myself as a member of your  
4 target audience. I deal with regular folks back home every  
5 day. I wish they would pay more attention to these things,  
6 but we have no hope of reaching them unless it's on that  
7 one page. If it's on a separate page, a separate document,  
8 no matter how brilliant it is, we'll lose them. As I  
9 understand it, many Presidential decision memos are no more  
10 than one page. I was personally a victim of a tactic by  
11 Senator Jesse Helms, back when he was a Senator, because he  
12 prevented the officials of the Department of Agriculture  
13 from ever putting on one page the details of the tobacco  
14 program. So no one was ever able to ferret out exactly  
15 what was going on.

16 So I'm a big believer in one page. I respect  
17 your brilliance in accounting, and there are many fine  
18 points that I'm sure I don't understand. But in terms of  
19 public communication, I think it's very important to reach  
20 out.

21 I found something, and I'm not recommending that  
22 you all use it, but I find in terms of reaching folks,  
23 these devices may seem simplistic, but they're remarkably

1 effective. Moody's has come out with a chart just this  
2 February, displaying our liabilities. It's on the last  
3 page of your handout here. Some of you have the pastel  
4 version and some of you have full color. I think this is a  
5 very helpful way of illustrating our fiscal situation in  
6 one glimpse, not just one page.

7 So there are different methodologies. I don't  
8 know if FASAB has the leeway to move in a graphical  
9 direction. But I think this helps illustrate what the  
10 Peterson Foundation is trying to do with their iceberg  
11 metaphor, what lies beneath the surface.

12 I also included a picture of a Catholic nun  
13 herding some young kids down the street. I would suggest  
14 to you that no nun would ever use the due and payable  
15 standard when it comes to field trips.

16 [Laughter.]

17 MR. COOPER: They don't wait for kids to show up,  
18 they try to predict and prepare for the needs of these  
19 children, so that every child can be taken care of. And as  
20 much notice as you can get, the better off people are.

21 So to me, these are the fundamentals, the back-  
22 home, common-sense fundamentals. And I think that as our  
23 Nation, in these perilous financial times, it's more

1 important than ever to get the news out. FYI, the  
2 Government Printing Office was a month late in printing the  
3 financial report of the United States. They've already  
4 sold out completely. So unless you're willing to burn your  
5 printer up with 200 pages back home, no American will see  
6 that document. So I think we have to have a better way of  
7 getting it commonly understood.

8 The irony is, of course, the Federal budget,  
9 which will be delivered tomorrow, and it's a stack this  
10 high, probably 4,000 pages, will be widely distributed and  
11 will be in every library in America. And the more readable  
12 public company format document that does a better job of  
13 explaining our situation will be almost, go completely  
14 unnoticed.

15 So thank you for letting me testify. I have very  
16 eloquent written testimony here that I did myself and I  
17 will spare you from going into the details.

18 [Laughter.]

19 MR. ALLEN: I think this is great.

20 If it's okay for the board, I've done this  
21 several times today, and I apologize, but I'd like to lead  
22 off with maybe a discussion, getting your feedback, because  
23 of your unique background, that of being an accountant as



1 well as being a Congressman.

2 MR. COOPER: Just what they teach you at a  
3 business school. I actually never took an accounting  
4 course other than accounting for lawyers at Harvard Law  
5 School. And then of course I was terrible.

6 [Laughter.]

7 MR. ALLEN: In terms of, the issue was focused  
8 quite a bit, or the differences of opinion today, in regard  
9 to whether or not there's a liability, focuses to a large  
10 extent of what has been communicated to citizens and has  
11 that risen to the point of a commitment that one could say  
12 now takes on the characteristics of a liability?

13 Related to that is the notion of, liability  
14 should only have a legal basis. Nothing that doesn't have  
15 a legal basis should be that, the opposite of that is, what  
16 is the economic understanding of a promise made between two  
17 parties. So can you comment on that broad issue?

18 MR. COOPER: I would agree that strictly  
19 speaking, Medicare and Social Security are not contractual,  
20 vested liabilities. But on the other hand, we need to be  
21 preparing for them. So I would suggest an intermediate  
22 category, kind of a liability with an asterisk. Because I  
23 do not want to lock in Congress so that we're unable to

1 reform these programs.

2 But the clear expectation on the part of every  
3 living politician in both parties and every living  
4 beneficiary is that these are near-sacred commitments. So  
5 they're actually putting them in a category more exalted  
6 than a vested or contractual benefit. And I can guarantee  
7 you, there will be hell to pay if politicians mistreat  
8 these benefits.

9 So this is the biggest disconnect in all of  
10 American political life, the fact that on the one hand,  
11 every speech makes these sacred, and then on the other  
12 hand, our accounting disregards them almost entirely. How  
13 do we reconcile these two? The only solution I can figure  
14 out is, like in the liability with an asterisk, not to lock  
15 it in, but to allow a period of preparation.

16 I've suggested before the AARP standard. Because  
17 they know my birthday better than my wife does. They're  
18 very good at keeping up. Perhaps the Federal Government  
19 could use that same standard, so the Federal Government's  
20 not at a disadvantage vis-à-vis one of the larger interest  
21 groups. Because they're very good at keeping track, age 50  
22 on. That would be perhaps a good compromise.

23 MR. ALLEN: Of recognizing a liability from those

1       that are age 50 on?

2                   MR. COOPER:   So we'd have a period to calculate  
3       and prepare.   Because right now, the due and payable  
4       standard says the month you get the check, then you start  
5       showing up on the books.

6                   See, people back home are naïve and they think we  
7       do a census for a reason.   And they don't understand that  
8       we don't start counting people when they're born or when  
9       you turn 18 or when you pay in 40 quarters of payroll taxes  
10      or when you turn 62 or 65.   Under the due and payable  
11      standard, strictly speaking, you're only registered on the  
12      books once you need the check.   That gives us, as a  
13      Government, almost no time to prepare and very few of my  
14      colleagues are versed on these numbers.   If you were to  
15      have a test on what present value is, for example, most  
16      people would fail.   It's very important that we get an idea  
17      of these pending liabilities.

18                  Standard and Poors and Moody's have both already  
19      projected that the U.S. Treasury bond could lose its AAA  
20      rating as soon as 2012.   These projections were handed out  
21      before the current financial crisis.   So if anything, it's  
22      more current.   And Standard and Poors does a remarkably  
23      unusual thing.   [indiscernible] saying that by 2015, the

1 United States of America will have the same credit rating  
2 as Estonia or Greece. This is stunning, what these  
3 programs have the capability of doing to our Nation's  
4 finances. And we need to accept the responsibility we've  
5 undertaken and prepare to meet it. CBO just came out with  
6 an excellent document called health options in January,  
7 giving us 140 different ways to reform Medicare. But  
8 people are not reading the document, because they don't  
9 feel the need. We need to help them understand the need.  
10 President Obama stressed it in his speech last night,  
11 reform health care, reform health care. But we need to be  
12 doing our homework in Congress and clearly visible quasi-  
13 liability on the books would really help us do that.  
14 Because then there'd be no denying it. It wouldn't be in  
15 an appendix somewhere, it wouldn't be in a wonderful  
16 statement of social insurance. I love that statement. But  
17 nobody's looking at it.

18 I have trouble getting my students at  
19 [indiscernible] Business School to pay attention to it, and  
20 I can grade them.

21 [Laughter.]

22 MR. COOPER: So without that enforcement  
23 authority, it's just very difficult to make people sit up

1 and take notice. It's just like there's just massive  
2 denial. People can't imagine that their little element,  
3 for example, physicians come to us every year wanting the  
4 sustainable growth rate fixed, a Medicare payment update.  
5 Well, they do not realize that according to the U.S.  
6 Treasury Department, that little fix is \$5 trillion.  
7 Because they're just asking for a little fee adjustment  
8 there. You multiply it by 700,000 docs, and pretty soon  
9 you get a real number.

10 So this is, historians will look back on this  
11 time and they'll say, they had proper tools, but they  
12 refused to use them. And you are the tool makers here.  
13 You give us the tools with which you can analyze the  
14 budget. And you've done wonders. The financial report is  
15 awesome. I've worked hard to get it literally distributed  
16 to every book store in America, privately published. Now  
17 there's a link to it on the White House website. The  
18 President had a fiscal summit this last week. So we're  
19 making some progress, but we need to continue that effort.

20 MR. ALLEN: Hal, you had a question.

21 MR. STEINBERG: Yes, a comment/question. I guess  
22 you answered the question. I was going to ask if the  
23 liability was an estimate. I think Penny, who's doing our

1 elements project, concept statement, I think she would have  
2 had a little bit of a heart flutter when she heard that we  
3 have a [indiscernible] called liability with an asterisk.

4 But I was going to ask you, but you answered the  
5 question, isn't the number on the statement of social  
6 insurance a liability with an asterisk. It's on one page.

7 But the question I really wanted to ask you, you  
8 did not, at least what I read in your statement, provide us  
9 with your views on the fiscal sustainability exposure draft  
10 and FASAB requiring a statement that would show the  
11 imbalance between expenditures for all the programs you  
12 folks have enacted and the revenues that you have also  
13 enacted going forward. If we continue to move forward on  
14 that and require the issuance of a statement of fiscal  
15 sustainability, do you think we need to add the additional  
16 information to the balance sheet?

17 MR. COOPER: First question, I agree, you're  
18 almost there with the social commitment item  
19 [indiscernible] that position. I just worry, and this  
20 sounds simplistic, but don't rely on people to add or  
21 subtract. You have to do it for them. You have to make it  
22 really plain.

23 So I would prefer it be above, and so the net

1 position is really indicated, so there'd be essentially one  
2 number that you could point to.

3 As for sustainability, I would beg for a little  
4 bit more time to fully understand that. The old phrase  
5 from one of the economists was, if it's not sustainable, it  
6 won't continue happening, or something. Well, that gives  
7 people sort of a false sense of confidence. It hasn't  
8 collapsed yet. Well, I was here in 1983, where we came  
9 within about a month of Social Security collapsing before  
10 we took action. It shouldn't take a crisis to get Congress  
11 to respond.

12 So there are a number of programs we need to  
13 focus on sustainability on, and I ask in my statement here  
14 that you focus on Medicaid. It's a vitally important  
15 program. And as I understand it today, we barely have the  
16 tools to measure its sustainability. So how do we do that?

17 There are other programs, our friends who are  
18 veterans have no idea that according to the financial  
19 report of the United States Government, the present value  
20 of our commitment to veterans went up last year alone, the  
21 incremental, \$340 billion. Now, you can vary interest rate  
22 assumptions, do whatever you want. That is astonishing.  
23 And they are completely unaware of it. And therefore,

1       ungrateful. And today we're getting more and more  
2       requests. The DAV was just telling us this week, no hint  
3       of thankfulness.

4               That used to be the size of the entire Defense  
5       budget. This is just what we did in one year.

6               It is stunning. Because pretty soon we won't  
7       have enough money in the Defense budget, the way we're  
8       heading now, for active duty troops to buy weapons. That's  
9       the trend. And the Secretary of Defense is very worried  
10      about that. So we have to have better tools for  
11      understanding our commitments. Because recruiting one  
12      troop doesn't seem to be that significant. But if you look  
13      at their lifetime cost, it is a remarkable commitment.

14              So sustainability, it's a difficult question.  
15      But I would like a little bit more time to fully understand  
16      that. I just think that particularly with Medicaid, which  
17      is probably a \$30 trillion problem that the Treasury  
18      estimates, how we are going to handle all that? And right  
19      now, it's almost completely ignored. Even in the financial  
20      report.

21              MR. ALLEN: It isn't broken out separately like  
22      the other social insurance programs.

23              Woody, you had a question?



1           MR. JACKSON: Something you said, Congressman,  
2   that in terms of the, you did not want, I don't want to try  
3   to quote you exactly, but my interpretation of what you  
4   said was, you would not want us to do something that would  
5   impair Congress' ability to reform the program. Can you  
6   give me an example of something that we might do that would  
7   impair Congress' ability to reform the program? For  
8   example, it has been stated in deliberations that liability  
9   recognition would do that. Might do it. I don't want to  
10   be too specific.

11           MR. COOPER: You know I didn't study accounting.  
12   I did go to law school, but I'm still probably not a very  
13   good lawyer, either, because I haven't practiced --

14           MR. JACKSON: Well, some of us aren't very good  
15   accountants, either.

16           [Laughter.]

17           MR. COOPER: My guess is you probably could not  
18   create a legal entitlement here, but you could further  
19   enhance the expectation that's already been enhanced by  
20   politicians that people have a claim that there might be a  
21   Federal judge somewhere, remarkably that would give enough  
22   indicia of expectation.

23           These are murky topics, as a law professor at W&L

1 will tell you, Timothy Jost, a Medicaid entitlement is  
2 remarkably tenuous. The Medicare entitlement is firmer,  
3 Social Security is probably firmer still. But after  
4 funding [indiscernible] we can pretty much change it at  
5 will.

6 The imbalances are so great right now that we do  
7 need flexibility. For example, I have a proposal right now  
8 that would allow us to reform the Medigap insurance market.  
9 Because even the trade association that represents those  
10 insurance companies has acknowledged that their predatory  
11 activities cost Medicare about 14 percent of total Medicare  
12 spending every year. That's 14 percent of almost \$500  
13 billion.

14 MR. JACKSON: And what kind of predatory  
15 activities are those?

16 MR. COOPER: Well, Medigap is a Congressionally-  
17 created insurance market, you have to sell a policy A  
18 through J. And the effect of these policies is to  
19 eliminate the co-pay and deductible on Medicare. So it  
20 essentially makes Medicare free. You make any benefit plan  
21 free, then it leads to some over-utilization.

22 MR. JACKSON: I see.

23 MR. COOPER: Most academics have thought between

1 20 and 30 percent over-utilization. Even the trade  
2 association is now admitting in a published, peer-reviewed  
3 paper that it causes 14 percent over-utilization.

4 MR. JACKSON: It's not the Scooter Store  
5 syndrome, is it?

6 MR. COOPER: Well, you got it. Probably one  
7 [indiscernible]. So this is tens of billions of dollars a  
8 year that even the trade association owns up to. And I've  
9 had the privilege of asking some of these company  
10 representatives in my office if they would allow a private  
11 insurance company to eliminate their co-pays and  
12 deductibles. And they said, oh, we'd never allow that to  
13 happen. But why are they able to do that to the  
14 Government? Because Uncle Sam isn't paying attention.  
15 There are different ways we could restructure that benefit  
16 so it is more preventive care, more long-term care,  
17 something that seniors would genuinely benefit from.  
18 That's an example of a restructuring that could help  
19 seniors and lower the costs for Medicare. Because this is  
20 a very unintentional, very unfortunate side effect of  
21 otherwise good private sector behavior.

22 But the CBO document is really marvelous, because  
23 each one of their 140 policy options is scored. My

1 colleagues are almost afraid to look at them, because  
2 unless there's a crisis, unless there's a need, why get in  
3 trouble? Because even thinking about some of these things  
4 can get you in trouble politically.

5 MR. JACKSON: But we struggle with this notion,  
6 at least I do, if we do something that members of Congress  
7 believe will really encumber their ability to do something  
8 meaningful here, it would be interesting to know that for  
9 sure. There's a suggestion, but I sometimes wonder if it's  
10 on point.

11 MR. COOPER: It's probably more fear than  
12 reality. I think you're going to get more from the  
13 advocacy groups, oh, you can't change this because, and  
14 this is an official government document, see, they called  
15 it a liability, and liability means it will be covered. A  
16 logical argument, but not a real one, because I think we  
17 have to establish the guidelines. We have to put that in  
18 law.

19 MR. ALLEN: Danny and then Jeannette.

20 MR. WERFEL: Congressman, I was wondering about  
21 your thoughts on something that we in the Government  
22 accounting and management field have struggled with for  
23 years, and that is the citizen touch point between

1 Government financial information and where their interests  
2 lie. We've been putting out balance sheets now since the  
3 CFO passed and the GMRA law passed. I think we were on our  
4 12<sup>th</sup> year of putting out the financial report.

5 It's our understanding that that balance sheet,  
6 even on one page, is not resonating with the citizens,  
7 they're not finding meaning in it. If you look at the  
8 balance sheet today, you still have a negative net position  
9 in the trillions of dollars. Yet that is not generating  
10 the types of questions and inquiries and concerns.

11 And so my thought is separate and apart, and this  
12 board has not been able to come to an agreement. We've had  
13 a lot of experts sit at the end of the table, give us some  
14 very different views on whether it's a liability or not.  
15 Whether it's a liability or not, I still think that even if  
16 you went down the liability route, and you add the  
17 trillions of dollars to our balance sheet and a  
18 corresponding hit on the net operating costs, I'm  
19 personally not convinced that that would be that citizen  
20 touch point that you're looking for. I think what the  
21 sustainability project is trying to do is try to explore,  
22 maybe there's other ways, and maybe we need to get it down  
23 to one page, but there are other ways to kind of generate

1 that type of interest and attention. Because the balance  
2 sheet, just because it's the balance sheet, has not seemed  
3 to generate that type of interest.

4 And just one other thing, one of the thoughts  
5 that I've had continuously is that we've been searching for  
6 this, where's the sweet spot where the citizens are  
7 interested in financial information. I think we've been in  
8 the realm with the balance sheet of telling the world what  
9 we owe and what we own, and people aren't clicking to it or  
10 reading it.

11 But yet this new kind of push for transparency in  
12 terms of where the money is going, USAspending.gov, the  
13 Transparency Act, Recovery.gov, when we launched  
14 Recovery.gov, we got 3,000 hits a second.

15 So that seems to be more where, in my mind, where  
16 we might be hitting that sweet spot. I just wondered if  
17 you have any thoughts about that.

18 MR. COOPER: Well, in my area, only Presbyterians  
19 are so fatalistic about things. I would not give up, and I  
20 would pursue several different paths to acquaint people  
21 with the truth. Because every person has a different  
22 learning style. But I would suggest to you that the  
23 average Rotarian all over America thinks they understand

1 balance sheets. They're probably less familiar with other  
2 methods of appraisal. Probably a little more suspicious of  
3 those.

4 Let me give you an example. Bob Cutler, in the  
5 Washington Post this week, has a nice column in which he  
6 describes accrual accounting as creative accounting. Well,  
7 I thought it was the standard for every business in America  
8 with revenues over about \$5 million and every State and  
9 local government and large non-profits. Yet he can dismiss  
10 it as creative accounting?

11 Folks back home know better. And maybe I work my  
12 constituents more than most Congressmen have, but they so  
13 totally get it, a shocking number of my constituents were  
14 already in cash before this financial meltdown. And the  
15 appreciation they express to me is extraordinary.

16 Now, I do not give financial advice. But they  
17 knew enough about things like, for example, while Secretary  
18 Leavitt was going around the Country bragging that Medicare  
19 Part D was so much cheaper than expected, my folks knew  
20 that, well, it was supposed to \$8.4 trillion net present  
21 value, and now it's only \$7.8 trillion net present value.  
22 That's a little cheaper, but it's still a national  
23 nightmare, because Bruce Bartlett, the Reagan economist,

1 has said that this was perhaps the worst bill ever passed  
2 in American history.

3 So a balance sheet, I think, helps get rid of  
4 some of the glibness. Just the flow statement, people may  
5 or may not get it, it may or may not give you the absolute  
6 problem, which I think is so important to grasp. the  
7 latest stimulus bill, nearly a trillion dollars, and the  
8 headlines all over America, the largest bill ever passed by  
9 Congress. Well, it's only an eighth the size of Medicare  
10 Part D. Hello?

11 I just had a discussion with one of Dick Cheney's  
12 top aides yesterday. He had no idea that they'd passed a  
13 bill in the Bush era that was eight times larger. There  
14 was no financial crisis in 2003. This was just expanding  
15 an existing entitlement program.

16 When 75 percent of seniors already had some sort  
17 of drug benefit, the Wall Street Journal publicized that  
18 only one dollar out of every 16 would even help seniors buy  
19 drugs that they could not otherwise afford. This is  
20 astonishing, and that bill was eight times more expensive.  
21 We have to get a handle on this, because you know how  
22 feeble Congressional scoring is. We only had a tiny  
23 glimpse, and then it turned out that we couldn't rely on



1       those numbers.

2               I think these are very valuable numbers. It  
3 helps people put it in perspective, so that hopefully next  
4 time we consider one of these dramatic expansions, we'll be  
5 a little more prudent, or at least have a funding mechanism  
6 to be paired with it. Otherwise, you know, people are  
7 saying, you know, que sera, que sera, it will all be fine,  
8 what, me worry. This is the Alfred E. Neumann approach to  
9 budgeting. It's just not responsible.

10              So let's have different paths to truth. And I  
11 would suggest that balance sheets are elemental for most  
12 American business. The most common question I get, well,  
13 how do you value your assets? And I say, hey, Yosemite is  
14 priceless, Yellowstone is priceless. But let's put a  
15 magnificent value on all those things, we're still in the  
16 hole.

17              Just because assets are harder to value, with  
18 liabilities are more tangible. Albert Einstein wrote the  
19 most powerful force on earth is not nuclear power, it's  
20 compound interest.

21              [Laughter]

22              MR. COOPER: Our people get that back home.  
23 They're feeling what it's like to be a debtor. And they

1 want this to be a strong country, not a weak one. I think  
2 in the interest of transparency, we should do everything  
3 possible to lay out as many paths to the truth as possible.

4 I started off my statement as saying, there's no  
5 perfect accounting, just the ability to account for human  
6 capital is an impossible task. But that shouldn't keep us  
7 from trying to improve our methods every year, and we are  
8 getting better. We've made dramatic progress. The  
9 financial statement's gotten so much better. And one day  
10 we'll have a breakthrough and one day the public will be  
11 paying attention. And I'll be you they're starting to pay  
12 attention now. Because we're discovering they didn't  
13 understand their own mortgage. But now they're interested  
14 in that and the national mortgage. So this is a teachable  
15 moment. So now more than ever, I think we've got to be  
16 optimistic about this.

17 People are smarter than you give them credit for.  
18 But we have to give them the tools for increasing their  
19 knowledge.

20 MR. ALLEN: Jeannette?

21 MS. FRANZEL: My question is probably a slight  
22 twist here on the same question. Some of the themes we've  
23 discussed today is that we don't want to do anything that

1 will unintentionally cause policy decisions to sort of go  
2 one way or another, especially in the school of public  
3 opinion. And of course, if there is reform in the future,  
4 we don't want to sort of lock some things out there.

5 But you did mention that citizens are really  
6 considering some of these programs to be exalted programs.  
7 This board is deliberating how to get objective, reliable  
8 and neutral information out to people. What are your  
9 thoughts on what do people need to know? How can this  
10 board facilitate really getting the information out there  
11 that's needed, so that when reform maybe is being  
12 considered or necessary, you have an informed constituency  
13 and that would make your job easier.

14 MR. COOPER: I'm going to refer to the  
15 physician's rule of do no harm. And there are two terribly  
16 damaging things that are happening today. One is the  
17 Social Security letter that goes out to everyone. The  
18 reason it's so damaging is it mentions a cash figure for  
19 expectations, like \$2,300 a month, something like that, and  
20 gives your earnings history. The power of those numerals  
21 completely grounds out any cautionary language about the  
22 money perhaps not being available.

23 It's a little bit like drug advertising on TV,

1     you see the beautiful people and you don't hear that it may  
2     cause hemorrhaging, nausea, all these horrible things. You  
3     only see the beautiful people.

4             I talk about behavioral economics in my  
5     statement. There have been a lot of advances in that  
6     field, helping people understand how other people  
7     understand things. And it's very important we realize  
8     we're dealing with human beings here.

9             So the Social Security letter is one terribly  
10    misleading thing. The other thing is the Medicare trustees  
11    report. Because I think it's on the dead last page of that  
12    document where you get to your actuaries letter. It says  
13    basically, by the way, the preceding assumes a 41 percent  
14    cut in doctor pay. That basically means the preceding  
15    report is a joke. Because Congress has never allowed that  
16    to happen. So if you have an insolvency date of 2018 or  
17    something like that, and then Congress is deliberately  
18    going to not cut physician pay, and you know that in  
19    advance, well, then, the insolvency date is probably a  
20    little bit earlier than 2017. The press continually relies  
21    on the number in the report.

22            Again, I couldn't get my business students to  
23    read to the last page of that document. I challenged them,

1 I said, look, there's buried treasure in here, find it.

2 Pay more attention to it.

3 MR. ALLEN: Extra credit, you have to give them  
4 extra credit.

5 [Laughter.]

6 MR. JACKSON: They were looking for something  
7 positive, though, in the treasure. Not there's no way this  
8 will happen.

9 MR. COOPER: I should have said booby traps.

10 MR. ALLEN: Right. Hal?

11 MR. STEINBERG: Talking about using financial  
12 statements to motivate and stimulate, you said you're not  
13 familiar with the statement of fiscal sustainability that  
14 was proposed. Actually, we have another name for it, too,  
15 long-term fiscal projections of the U.S. Government. So  
16 that gets away from the sustainability name.

17 But basically what it does is it presents the  
18 present value of the fiscal gap over a 75-year period of  
19 time. And the number's pretty high, it's close to David  
20 Walker's number, \$53 trillion or so.

21 I continually have the same concern that you  
22 have, that Congress doesn't act until a crisis occurs.  
23 People can look at that, see 75 years and the crisis

1 [indiscernible] legitimate [indiscernible] years. I would  
2 ask if I could that if you get a chance to become familiar  
3 with this proposal that we have out also that we could get  
4 some thoughts from you about how we can tweak that  
5 statement format to try and get a better sense of urgency  
6 in the people that read it.

7 MR. COOPER: It would be an honor to try to  
8 figure it out. I'm not sure I'm capable of it. But like  
9 our friend Jagadeesh, I think his testimony prefers the  
10 open group. I have seen my colleagues game so much of the  
11 time period involved, we can do it with five years, we can  
12 do it with ten years, we can even do it with 75 years.

13 But on the other hand, an infinite time horizon  
14 seems like that's an absurd term, too. So I prefer to say  
15 lifetime of today's women, because life expectancy today  
16 for women is like 86 years. That actually would cover  
17 enough of the problem so you're not limited to the  
18 arbitrary 75 years. But I'd be delighted to look into it  
19 and try to [indiscernible].

20 MR. ALLEN: Let me follow up with a question  
21 conceptually based on what Hal is talking about and try and  
22 get a reaction of how you think your colleague would react.  
23 As you're looking at that statement, is that the chart or

1 the statement you're looking at right now?

2 MR. STEINBERG: The statement.

3 MR. ALLEN: Okay, so you're looking at the  
4 statement. What that statement is doing, and if you need  
5 to go, just get up and leave. That's fine. What that  
6 statement is doing, Congressman, is looking ahead and  
7 saying, okay, if today you look into the future 75 years,  
8 all the money that's going to flow in for these programs  
9 and all the money that's going to flow out, this sort of  
10 gives you an idea of the difference between the two. Some  
11 of us believe that's an incredibly important bit of  
12 information.

13 What that does not show is that I have any  
14 obligation today, that any event has taken place up to this  
15 point that's created an obligation for me. So it's a cash  
16 flow projection looking forward. Is there a belief, do you  
17 believe that that document will make them respond, or if  
18 you want to turn to the, there's a chart right after that,  
19 the graph, it really shows that I don't really have a  
20 problem today. In other words, when I'm focusing on cash  
21 flows, there isn't that big of a difference between inflows  
22 and outflows. I've got to go out a number of years before  
23 I see a difference between inflows and outflows.

1           So in my mind, is that helpful for getting  
2 Congress to act, or is that in essence resolved the other  
3 way, that they would say, well, you know, if I don't have a  
4 cash flow problem for 10 years, I've got 10 years before I  
5 have to act on that. I guess I would be [indiscernible] to  
6 have you respond to that.

7           MR. COOPER: I would put this in the category of,  
8 it looks interesting and informative, and let's have this  
9 as one of several ways of getting Congressional attention,  
10 but not the only way. This is not a traditional small  
11 business format. And I think that personally that by  
12 trying to match receipts with spending, you probably put  
13 too much confidence on the receipts side. Because I see  
14 more people who are resistant to paying taxes and upset  
15 that they're not getting an equivalent benefit. Whereas we  
16 know that they're not going to want to see a benefit  
17 reduction. So that's a firmer number in my mind.

18           And as you're aware, probably our most regressive  
19 and anti-jobs tax in America is the payroll tax. So if  
20 you're going to rely on a tax mechanism, this is not the  
21 best way, if we want to promote job growth.

22           That's the thing about accounting, it's like  
23 looking at the facets of a diamond, you see different



1 elements, different approaches. And I'm not saying that  
2 one is superior to another, this seems like a good  
3 theoretical advance. But you can't have enough, well, we  
4 need to work on several approaches to appeal to different  
5 folks. Because usually if someone in Congress does come  
6 from a background that's not [indiscernible] a CPA  
7 background at a major firm, it's a small business  
8 background. And usually if they're acquainted with  
9 anything financially, it's a small business financial  
10 statement.

11 So to the extent to which we can responsibly put  
12 numbers in that format, without unduly stressing your  
13 doctrine, that's the way I think you can get the most  
14 success with the average Rotarian back home. And that's my  
15 target audience, both for accounting standards and for  
16 what's actually on the document. Because there's an  
17 instant grasp. There's no barrier of comprehension. We  
18 can massage the numbers. This looks interesting, but it  
19 takes a little while to wrap your head around it and say,  
20 all right.

21 MS. FRANZEL:L I wonder if you could look at page  
22 57, because we're actually, just keep turning that, because  
23 we're also looking at adding graphics to this. I wondered

1 if a graph like that is helpful, if it may be more  
2 impactful.

3 MR. COOPER: Well, I've used graphs like this  
4 before and I find that I have to add to it, oh, by the way,  
5 there will be zero dollars left for national defense, or  
6 whatever you have above the revenue line. See, implicitly  
7 what many people are planning on is a dramatic increase in  
8 the revenue line. Simply put, the most fundamental policy  
9 question we face in the next five or ten years is whether  
10 we stick with American levels of taxation, 18.4 percent on  
11 average for 50 years, or whether we move to European  
12 taxation. And temporarily, at least, there will be a surge  
13 on the revenue side and the spending side. But the  
14 question is whether that's temporary, just for a stimulus,  
15 or whether it is the Europeanization of the American  
16 economy.

17 I believe in American exceptionalism. I think  
18 we've always been different. I think we pride ourselves in  
19 our difference. I think it's going to be perilous for any  
20 political party that advocates a Europeanization. Because  
21 while the benefits may seem nice, somehow that's not part  
22 of the American character.

23 I could be completely wrong. But I think

1       fundamentally that's what so many of these budget debates  
2       are about. Are you comfortable with the Federal Government  
3       taking a much bigger bite than 18.4 percent? Most folks I  
4       know back home really aren't excited about that prospect.

5               MR. JACKSON: I've got neighbors that tell me, I  
6       live out of town, and I've got neighbors that are irate and  
7       every word out of their mouth is socialism. They are just,  
8       I mean, they're ready to -- I've never seen such  
9       temperament in my life. From the barber shop to my next-  
10      door neighbor.

11             MR. COOPER: It's particularly ironic in a place  
12      like Tennessee, because what's TVA? It's a socialist  
13      utility. But people still --

14             MR. JACKSON: They don't remember when it was  
15      created. They're drawing Social Security.

16             MR. ALLEN: There are people who work for TVA who  
17      feel that's [indiscernible].

18             Go ahead.

19             MR. STEINBERG: I just had a thought, and let me  
20      throw it out. I'm not saying that I believe it. But we  
21      heard this morning David Walker say that his documents come  
22      from our financial statement and the reports. Maybe we  
23      should accept the fact that the document that we put out,

1 we, the Treasury, based upon our standards, is not going to  
2 be understood or even read by the American people, and that  
3 what we've got to do is put out documents that provide the  
4 information and then expect that there's going to be groups  
5 like Concord Coalition and Joe DioGuardi's group and other  
6 groups like that that have much better skills than we do  
7 about putting information into a form that the American  
8 people will understand.

9 MR. COOPER: That may be the case, because we  
10 always have all of our technical jargon and disclosures and  
11 everything else to go with it.

12 Go ahead, last question.

13 MR. FONTENROSE: Thank you for coming today,  
14 Congressman. My question to you is, should we be gearing  
15 this toward the Rotarian, or your colleagues?

16 MR. COOPER: Well, if you get the Rotarian, you  
17 get my colleagues.

18 [Laughter, simultaneous conversations.]

19 MR. FONTENROSE: But you just said your  
20 colleagues take all these numbers and they game them.

21 MR. COOPER: Yes, but their area of operation is  
22 kind of limited by what average civic-minded people back  
23 home, you don't have to belong to a club, but you have to

1       care about your community. These are the good, solid,  
2       upstanding people of America. And they're usually involved  
3       with some small business or another, they know what it's  
4       like to make payroll. They're a little bit admiring of  
5       their Government and a little bit distrustful.

6               I use the phrase in my document, and we use it  
7       all the time in politics, you've got to put the cookies on  
8       a low shelf. Don't make it hard for people to access this  
9       information.

10              It really happens on a lot of levels. The best  
11       service you could do would be to get the financial report  
12       as is distributed to every public library in America. That  
13       would be a huge achievement. Because you've already done  
14       the fabulous work of that. Now you're talking about kind  
15       of gilding the lily, make it even better. There's enough  
16       information in that for people to take action. But you're  
17       working now commendably to try to make it even better. I  
18       welcome that. There are going to be nuances in these  
19       programs that we discover. Hopefully we'll be able to wrap  
20       our arms around Medicaid, because as you're fine tuning  
21       this, don't forget the \$30 trillion.

22              MR. ALLEN: We've left that out.

23              MR. COOPER: It's kind of like the Moynihan

1 Social Security report, which was brilliant. And then if  
2 you read the report, it says like on page 124, oh, by the  
3 way, we neglected to look at the disability and life  
4 aspects of Social Security. It's really a triple benefit,  
5 and then [indiscernible] to the one portion. Yet everyone  
6 cites that report as like authoritative, when it's two-  
7 thirds incomplete.

8 The biggest questions that we deal with, no one  
9 [indiscernible] the stimulus bill had dramatic expansion in  
10 Medicaid. And it's already one of the most complex  
11 statutes ever devised by the mind of man, plus you have the  
12 50-State federalization.

13 So it would be bigger today than Medicare, if it  
14 weren't for the Medicare Part D benefit. This grows like  
15 kudzu, and it's helping a world of people. I'm not against  
16 this program. This is a good program. But we have to  
17 understand it. And I teach this at Vanderbilt, have for 12  
18 years. It is very difficult to understand.

19 So when it comes to wrapping our arms around  
20 Government, we don't begin, so many people only, for  
21 example, with Medicaid, only look at the Federal  
22 contribution. They don't look at the State match. They  
23 don't look at the State gaming of the Federal match.

1 [Laughter].

2 MR. COOPER: It's almost like again behavioral  
3 economics. For game theory, you have to go back and forth  
4 several iterations before you can get a clue. I think I  
5 can prove to you that some States that are supposed to get  
6 a two for one match, in fact, it's like fourteen to one.  
7 In the Massachusetts health care experiment today, it's  
8 primarily funded by Medicaid. Yet they're getting credit  
9 for having reformed --

10 [Simultaneous conversations.]

11 MR. JACKSON: He just looks guilty back there.

12 [Laughter.]

13 MR. COOPER: At least we should know what we're  
14 doing. Because this is basic confidence I'm talking about,  
15 not fancy stuff. And in so many basic ways our Government  
16 has gotten so complex that it's almost impossible, unless  
17 you have 12 degrees and an infinite amount of time, to  
18 understand the basics.

19 I'm not talking about obscure programs. I used  
20 to represent a lot of black lung folks, and they're fine  
21 people. But these are Medicare, Medicaid, Social Security,  
22 these are the giants that should be so well understood that  
23 we know their behavior. And today we really don't.

1           MR. ALLEN: Thank you very much. We do  
2 appreciate that.

3           MR. COOPER: Thank you, Chairman.

4           MR. ALLEN: We'll close the meeting. We have a  
5 steering committee meeting [indiscernible]. Thanks,  
6 everyone. Remember, in the morning we have  
7 [indiscernible].

8           When I met with the staff, we made a decision  
9 that if we can't keep both documents going in the planned  
10 time, which was very highly probable to me, we are still  
11 going to go with the projected and the sustainability  
12 report. So please come prepared to go through all of the  
13 questions tomorrow on the sustainability report. If we  
14 have time, we'll move on to the social insurance issue.  
15 But if we don't, we're still going to go through  
16 [indiscernible]. So come prepared for social insurance  
17 [indiscernible].

18          MS. FLEETWOOD: Also, I handed out to everybody,  
19 because we had so many conversations, I want people to know  
20 that this is actually published by the Treasury Department.  
21 It goes with the financial report. It gives you a brief  
22 [indiscernible] of the major points that you might see, and  
23 it relates to sustainability.



1                   [Whereupon, at 4:25 p.m., the meeting was  
2    adjourned.]