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
PROCEDINGS

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

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

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

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

MR. ALLEN: I know. I’m being somewhat facetious, but I guess what I’m saying is, I want us each to be prepared, and I want us to sort of share that opportunity that we have, don’t let me ask questions all alone. Sort of the expectation of, it always seems like
who asks the first question is kind of a challenge. Maybe not with this group. At GASB actually we would assign this half of the table or that half of the table would start the questions. So I guess I’m just [indiscernible].

All right, [indiscernible] who’s leading these discussions.

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

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

MR. SIMMS: Okay.

MR. ALLEN: Okay.

MR. SIMMS: And I also included a draft standard in there for you to look at and see some things that may, in response to the comments that we received. I wanted to see if I can get some general thoughts on the ED at this
point and I can take those comments back and prepare the
draft for the next meeting.

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

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

Ross pointed out to me that he thought he had
taken care of that with a comment in the basis of
conclusions, beginning at paragraph 14. Paragraph 8 notes
that other accounting literature includes pronouncements of
other standard-setting bodies and regulatory agencies. I
am not sure that that is clear. And in fact, I don’t
people think OMB is necessarily a regulatory agency as much
as it is speaking on behalf of the President and saying,
this is what you shall report.

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

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

MR. STEINBERG: It is. But the last time we had
this discussion, because I remember seeing it maybe as an
earlier draft of this in some other document, Danny didn’t have any problem with that. He read --

    MR. SIMMS: Isn’t that concept statement that when it’s close enough --

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

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

    MS. PAYNE: OAI.

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

    MR. SIMMS: Well, but I think if something’s in level D, even though it’s in level D, an agency doesn’t have to follow it. In other words, if they see things in A, B, C and so forth.
MS. KEARNY: Certainly. But if it isn’t a level D, we would want it to be recognized as GAAP, if it’s not [indiscernible] A through [indiscernible].

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

MR. ALLEN: Absolutely, this is where --

[Simultaneous conversations.]

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

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

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

MS. PAYNE: It’s actually OAI.

MALE SPEAKER: OAI.

[Simultaneous conversations.]

MALE SPEAKER: OMB can’t set RSI.

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

MS. FRANZEL: GAO, and I think we’re kind of on
the same page as OMB, we’ve been interpreting the OMB
guidance as level D guidance, and in audit reports, we
state that financial statements have been prepared in
accordance with GAAP and OMB guidance, and we cite the
circular. So we’ve really been interpreting it here as
Level D guidance. And it does, you know, Level D certainly
seems to include that. Implementation guides published by
the FASAB staff as well as practices that are widely
recognized and prevalent in the Federal Government.

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

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

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

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

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

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

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

FEMALE SPEAKER: We would agree with that.
MR. JACKSON: Even so, if OMB prescribes something and the auditors want to report on it, because OMB says you’ll report on this, well, on the one hand, the auditors will report as to whether the financial statements are fairly stated in accordance with GAAP. And also, report on this other information in the manner prescribed by OMB.

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

MS. FRANZEL: That’s correct.

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

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

MR. ALLEN: Good point. Thanks, Hal.

MR. STEINBERG: I don’t know that we could make
any adjustment to [indiscernible].

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

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

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

MR. SCHUMACHER: I had a similar point, Tom. When a new entity comes on and a decision has to be made as to whether to use FASAD or FASB, what’s the process for doing that, and who makes that decision as to whether there’s criteria in the MAP? I’m not so sure it’s clear in the standards. Whether that’s the auditors and the entity,
whether it’s OMB, whether it’s, I don’t think it probably
should come back to us. But it’s just not clear to me in
the standard what process they go through to make that
determination and where that gets challenged.

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

MR. SCHUMACHER: It does list criteria.

MR. ALLEN: But just now who decides --

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

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

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

MR. ALLEN: Other issues that we would like the
staff to address? I guess there are three broader question
issues, do we want to see if there’s general support for
those? I’m not sure how far you want to -- I don’t mean to cut you off. We’ve got a few more minutes. How much further do you want to get into the broad issues that you’ve outlined here?

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

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

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

So we included in the basis of conclusion some explanation of the GAAP hierarchy and what other literature is intended to, how it’s intended to be used, and the process they should follow. So that was basically the
broad issue one, is just to clarify the hierarchy and where it can be used and where organizations like Treasury, OMB and GAO, where they would fall in the hierarchy.

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

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

Mr. ALLEN: Is everyone comfortable with that?

[Simultaneous conversations.]

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

MS. FRANZEL: Yes, so maybe you could just get
rid of that.

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

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

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

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

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

MS. FRANZEL: Yes, and in fact, the legislative branch entities are considering FASAB as they come online and start doing their financials. But I think, yes, if that is a concern, a footnote listing all three branches
would probably be appropriate. You do have some entities in the legislative branch, like the Senate restaurants, for instance, you know, they’re a little bit different than Library of Congress. So when you go through this consideration, it doesn’t necessary come down to FASAB for them.

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

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

MR. ALLEN: I guess all I was asking is, it might be good for us to at least discuss that enough to know, what is the next project that would be considered or could be considered. Because, is it a separate project, is it
one that we have already somehow got on our agenda, and
that would be helpful, if we just tell people, you know, in
essence you’re saying what we may consider in a future
project isn’t really answering the concerns that were
raised by a board member who’s [indiscernible] response.

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

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

MR. SIMMS: Okay.

MS. KEARNY: Would it be possible maybe to
clarify that? It seems to me that when I was reading the
standard, although I think it was in the questions, it
alluded to that we were going to address this in a follow-
on project, maybe somehow we could, I think we’ve done it
in other standards where we footnote that this will be
taken on in a separate project, so that the readers know
that this isn’t the final decision.

Mr. ALLEN: Okay.

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

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

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

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

[Simultaneous conversations.]

MR. JACKSON: Well, little bit different focus [indiscernible] also consider for certain Federal entities
should be permitted to continue filing FASB, yes.

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

MR. JACKSON: Yes, we could tune that note up.

Those were the two projects that we [indiscernible].

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

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

MR. ALLEN: I think you’re looking at the next
meeting.

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

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

Thank you.

We want to welcome everyone here for our public
hearing. This is an incredibly important public hearing
for us. I can’t imagine a board addressing two more
important projects or answering two more important
questions than, is the Federal Government sustainable and
how should that be reported in financial statements. And
also the issue of how best to account for commitment or
promises or whatever you want to call it to, under social
insurance. We welcome people, at [indiscernible] invite
you to come up as he does.

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

So as we go through this, maybe you can identify
what planet your perspective is coming from. But it is interesting, because we really do have very different views of how to best report social insurance. There’s always different views on sustainability reporting. So the purpose of the public hearing was to help educate the board, so that we can best communicate these issues. And so when we ask questions, it is not to challenge anyone’s position. We ask questions to better understand the whys of your position, to help us better understand where you’re coming from. So I want to say that nobody’s, any position that’s discussed, we’ve probably been arguing ourselves about a number of different positions.

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

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

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

[Laughter.]

MR. GOKHALE: I think a key conclusion or the key point from the exposure draft, the developed exposure draft on social insurance, was a compromise between the primary
and alternative views that were presented in the earlier
draft and the compromises to the [indiscernible] closed
group measure developed with the balance sheet as an
independent item that was presented with the balance sheet.

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

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

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

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

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

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

MR. ALLEN: Okay, excellent.

Questions people may have about the comments?

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

MR. GOKHALE: Infinite measure.

MR. JACKSON: Infinite measure. And can I ask a
question about that? I’ve been stewing over this for several days. It struck me, and I’m just the accountant’s accountant here, I’m no economist and this stuff sort of gets beyond me at times, maybe more often than I choose to admit. But I cannot for the life of me see the relevance of a measure that goes out in perpetuity. I cannot for the life of me. What would that mean to the average citizen in terms of reading a financial report on the United States Government?

MR. GOKHALE: Well, practically, I think the issue is whether reporting finite measures helps us make policy choices under full information. In another publication, a co-worker of mine, [indiscernible] suggests that in making policy choices, it is important to have full information about the [indiscernible] available for policy-makers to choose form. Under finite horizon measures, we argue that policy-makers decisions would naturally be biased in favor of policy options that minimize short, minimize the short-term shortfall that the finite horizon measure depicts at the expense of maybe increasing the overall imbalance that the new policy would occasion. That’s the context within which I argue for an infinite horizon measure, is that it provides full
information under the assumptions underling the measurement procedure, therefore assisting and eliminating as much as possible biases that are rife in policy-making, from basing our decisions on particular measures. So I think infinite horizon measures, even though there is question about how to communicate and interpret these measures, I think not reporting the full extent of the imbalance under the assumptions that underlie these measurement procedures would be the wrong thing to do. So it’s a practical kind of concern.

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

MR. GOKHALE: Well, there are two ways in which you can address the uncertainty issue. One is about the policy issue going forward. As I have tried to describe in the statement I submitted yesterday, you may not have had time to read it, as the best policy [indiscernible] no issue, as policy uncertainty there’s no issue. Because the operational assumption is that you’re extending current
policy and practices from [indiscernible]. So there’s no uncertainty about [indiscernible] policy, that’s gone.

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

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

Well, now thing about the 76th year. In the 76th year, is it then natural to assume that there’s no imbalance in the 76th year? Or conditioned on the assumptions, the underlying assumptions of policy, demography and economics for the 75th year, is it better to project or more natural to project an imbalance for the 76th year and include it? I will say that the 76th year
imbalance is likely to follow from the assumed demographics and economics for the 75th year. That’s likely to be zero than to be something positive. The implicit assumption of it being zero, which is made when you cut it off at 75 years, is less correct than making the right best guess of the imbalance of the 76th year and including it in the projections to make the total estimate a fuller estimate and so on. So I think that even when you think about the underlying demographic and economic projections and uncertainty about them, I think that given that we are basing our projections on conditional distributions of these outcomes, based on the historical evolution of the demographics and economics, I don’t think it’s appropriate to cut it off at 75 years. On both the policy uncertainty ground and also on ground of the demographic and economic assumptions that underlie these projects, I think cutting it off at a finite horizon is less correct than extending out through [indiscernible].

MR. ALLEN: Nancy?

MS. FLEETWOOD: I had a question on something that you had presented to us before, where you talked about, you thought both measures should be clearly demarcated in a section of the table. I was kind of
wondering what you envisioned. I was trying to think what
you were thinking of when you said that.

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

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

MR. GOKHALE: Well, I’d say there should be some
footnotes explaining that it’s a forward projection and
it’s independent. But it’s correct, and it’s definitely, I
think other people here know exactly what you’re talking about [indiscernible] different matter. What we don’t know and cannot anticipate is what’s the best way to communicate this information. But I think some notes are appropriate, they have to be carefully worded. But I think the bottom line is, I think it’s better to place the closed group measure in context rather than just report it independently.

MR. ALLEN: Hal?

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

MR. GOKHALE: Yes, I am.

MR. STEINBERG: Is that kind of what you’re thinking about?

MR. GOKHALE: In general, I believe that for purposes of reporting the financial condition of these programs, it’s more important to present the forward-looking information than report the existing financial
position of these programs that is the result of past
decisions, accumulated, outcome of accumulated past
decisions. We can do nothing about that. That’s just
what, where we are today. But where we’re going is more
important, and for purposes of [indiscernible] policy-
makers and the public who have to grapple with making
decisions about how to finance a program, they ought to get
the information about where they are going first, and then
[indiscernible].

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

MR. GOKHALE: I think that’s [indiscernible].

MR. ALLEN: Jim?

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

MR. GOKHALE: I think the earlier in the entire
report that full extent of the imbalances program, then reporting as well are presented better. Because I think the exposure would be wider, the report would be deemed more prudent and it would be far to discussions going forward of the forward-looking information, along with open and closed group measures, was given more emphasis than it is today in other reports.

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

MR. GOKHALE: I completely agree that this is not about recognizing the liability. This is about informing the public about the financial condition of these programs going forward, with all the attendant assumptions that are involved in making these particular, building these particular measures. These are not, this is not recognition as relaying the implications, future implications of continuing on the quality path. But that’s more important than actually
[indiscernible] because we have [indiscernible] that range from [indiscernible] not inform at all [indiscernible] all along the spectrum. All of that spectrum, and considering where you draw the cutoff line is kind of, eliminates, all those concerns are eliminated when you say these measures are based on the assumption measures, continuing current policies through the future. These current policies are going to continue through the future, then whatever the Government’s obligated to pay, however firm or infirm that is, is going to be paid under current policy and practice. So all that is swept aside.

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

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

MR. ALLEN: Nancy.

MS. FLEETWOOD: I’d like to do a follow-up, then, because actually, Jim, you just summarized that, but I actually was hearing you a little differently. I think what you were saying, if I was following you, and maybe I wasn’t, the most important thing that you think we ought to
be doing in our financial statement is showing where we’re going, what the long-term implications of these programs would be, closed and open. Having a snapshot in time, really, our balance sheet, I think he’s saying, is not so important as it is this other information.

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

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

MR. GOKHALE: Maybe that’s a difference from an accountant’s versus an accounting perspective.

MS. FLEETWOOD: That’s the way I understood it.

MR. PATTON: But that doesn’t seem quite right, because when I asked whether, if the statement of social insurance covered the projections of the open group in it, then you thought that wasn’t enough. So that’s where I got
that the balance sheet is an important visibility factor.

MR. GOKHALE: It’s a visibility issue, yes.

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

MR. GOKHALE: Sooner the better.

MR. ALLEN: Okay, go ahead, Hal.

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

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

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

[Simultaneous conversations.]

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

MR. PATTON: Right. I don’t call it
MR. JACKSON: Fiscal projections.

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

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

MR. PATTON: Okay, thank you.

MR. ALLEN: Are there questions that we have?

MR. FARRELL: I guess I was going to ask Jagadeesh, some have argued that reflecting this information on the balance sheet, which historically has
not been used to preset additional information down at the bottom, would cause more confusion than clarity. I’m not of that persuasion. I think we’re talking complex issues here anyhow. And I’m sort of with you that the more we can get these things out and visible, the people that need to understand these will look further for further explanation. But, given that other people have different views, do you believe that putting this on the balance sheet would cause general confusion and cause people just to throw up their hands and not read further?

MR. GOKHALE: I think that the more confusion if the closed group measure was presented on its own without the context of the open group measurement. I don’t think that the, I think actually the reporting would be improved if these measures were included with the balance sheet.

MR. ALLEN: Let me ask you, from an economist’s view of the cost of social insurance, we have a statement of the cost statement, of what the Federal programs cost each year, kind of the operating statement. When you view that, do you view the cost as being what’s paid out to recipients that year, or would an economist view cost as being what’s paid out this year, including changes in
commitments that are made up or down during that year?
When you associate what the program costs us this year, is
that a cash flow measure, or do you think of costs to mean
those changes in commitments during the year?

MR. GOKHALE: The current cost is, well, the
economists’ definition of current costs includes even more
than that. It includes the distortions that are introduced
in private individuals’ behavior as a result of having the
Government program [indiscernible] because providing a
benefit to someone subsidizes some activity, and the
opportunity [indiscernible] behavior, which is a distortion
from the alternative of no subsidy, which is also a cost.
So an economist’s definition of what cost is was very drawn
and would not be included in any expansive definition of
what costs would be in this kind of report. My view of the
cost of the program is that the [indiscernible] costs, the
current outlay, and the fact that on all of the books that
obligate the Government to make future payments, under
those laws, should also be considered as part of the
financial condition of the program. It’s not a current
cost. It’s the total cost of having this program in place
would include not just today’s outlays but also outlays
that are projected in the future under those laws.
Again, this is a very strict definitional issue.

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

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

MR. ALLEN: All right. Thank you.

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

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

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

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

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

MR. ALLEN: That’s true. And maybe that’s the delineation --

[Simultaneous conversations.]

MR. JACKSON: One of the things that I think we have an opportunity, the reason I cast it as an opportunity, this is all about providing information, useful. I’ve said it to, ad nauseum, it’s not only, it
speaks about the management of the Federal Government. In the one context, when you look back, assets, liabilities, in the traditional sense, and how well we’ve accounted for those, which demonstrated through, by reporting on internal controls and so forth, as to whether or not we’ve done a good job there, if you will. That’s sort of a lay way of depicting it.

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

MR. ALLEN: Good, and that’s what the department [indiscernible].

MR. FLEETWOOD: I just had one more comment. When I was talking to you, looking at what you read and hearing what you said, what struck me when I looked at that, the balance sheet, which has a traditional way that you look at it, assets, liabilities, equity, and then you have this one line item at the bottom. And it’s, you know,
when I first came into this, and I’m new to this board, this is my first time here, and I looked at that, it was confusing to me. So then I started searching, okay, what does this mean, then when I finally saw it in context, when I saw what it meant with the open measure and how it all fit together, it made sense to me. But just as a person picking it up, it was confusing.

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

on the document felt funny to me. And I don’t know if you have a reaction to that.

MR. GOKHALE: That is precisely what motivates my
suggestion there. I think we need to place that one line in context, and the best way to do that is to provide the prime measure of the open group, with the appropriate explanatory notes. Now, it might become such a big presentation that it should be placed before or after the balance sheet, but it should come very close to the front of the report [indiscernible] because people don’t necessarily go through the entire appendices and so on, [indiscernible] discussions and summaries, to get the detail.

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

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

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

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

And so I want to ask the question, based on the principles that you have discussed, as long as these things are disclosed and presented somewhere appropriately, are you saying that it must be on the balance sheet in your view or you’re fine with it being presented in some manner that’s understandable and in the proper context?
MR. GOKHALE: It should receive more emphasis and more prominence than it receives today. So presented somewhere is not good enough for me. Presented --

MS. FRANZEL: Somewhere with [indiscernible].

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

MS. FRANZEL: Thank you.

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

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

So it’s a, I’ll just say the neutral word compromise.

MR. ALLEN: Thank you. We will be addressing
that compromise, if you will. So thank you.

MR. GOKHALE: Thank you very much.

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

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

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

[Laughter.]

MR. WALKER: Dave.

[Laughter.]

MR. ALLEN: It seems since you’re addressing both of our projects, we probably as a board need to exercise discipline in time as well as focus and have you address the first projections project, and then this social insurance project. It seems like to me otherwise one may dominate totally. So I’ll kind of be the unofficial clock watcher and cut us off and move us to the next one. So if you want to make your comments first on the sustainability,
or projections, I guess, is whatever we’re calling the
project, and then we’ll have questions related to that.

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

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

At the time, September of 2003, I talked about
the deteriorating financial position of the Country that
was projected over time in our fiscal outlook. It’s a lot
worse today than it was then, and it’s deteriorating more
rapidly. In my view, there clearly is a need for fiscal
sustainability and intergenerational equity report. That’s
what I call it, you may decide to call it something else.
In my view, we clearly need to be able to modify reporting with regard to social insurance programs. Mind you, it may not be some of your views, but I do believe that there’s a liability that ought to be recognized that’s not recognized. But I don’t believe that it’s as large as some of the members on this body may make of it.

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

So I think that it’s important for you all to do what you think is right. I also think it’s important that the Government, the Treasury, et cetera, try to be able to convey information in a more user-friendly format, in a way that people might actually read it. And they’re starting to do that, through some annual reports and various other things. And frankly, our foundation, the Peter G. Peterson
Foundation, has committed to publishing an annual citizen’s guide to the state of the Union’s finances. We published one last week, we’re going to publish another one by March 15th which would be more color graphics, the bottom line numbers, and the size that you can fit in your coat pocket, so it’s much more portable, it’s much more user friendly. I expect that frankly, it will be read a lot more than the full report for understandable reasons.

I want to commend you for recognizing the need to include selected stewardship information in the financial statements. My personal view is a statement of net assets for a sovereign nation is of marginal benefit. At the same point in time, I think that we clearly need something that deals with fiscal sustainability, intergenerational equity. Because only the Federal Government has the power to tax, only the Federal Government has the power to borrow without limit. And it’s doing a lot of the latter right now, and it has serious long-term fiscal sustainability and intergenerational implications. Those aren’t just financial issues, those aren’t just fiscal issues. Frankly, they’re moral issues. And I think that we need to have more transparency with regard to some of this information.
I think additional disclosure here is appropriate. I think it’s also appropriate to employee reasonable assumptions that are used by other Government agencies, to the extent that the auditors believe they are reasonable. I think the more different sets of assumptions you start introducing out there the more confused the public’s going to get.

I used to be a trustee of Social Security and Medicare from 1990 to 1995. And the trustees have a responsibility, working with the actuaries, to come up with their own set of economic, demographic and other assumptions. Sometimes they’re the same as what other entities in Government, OMB or CBO, may come up with. Sometimes they’re somewhat different. But they have an independent responsibility to come up with their own and not to blindly follow what others may do. I think that they tend to have a little bit more objectivity, clearly, than at least OMB, which is part of an Administration and therefore has to be able to work with some of the policies and initiatives that the Administration has, whichever political party it might be, and whichever individual might occupy the office of President of the United States. I think that there’s some additional guidance
that’s needed with regard to projecting revenues, especially when you end up, how are you going to deal with sunset provisions, how are you going to deal with, especially when there’s broad-based agreement that not all of those are going to sunset. There’s some practical problems that are going to have to be worked through. I don’t have all the answers on that. But you’ve seen the Congress start to do things more where they’re supposed to be temporary, and you’re going to have to figure out how you’re going to handle that.

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

At the same point in time, I think the bonds that are associated with those trust funds are not a fiction. They are, they represent legal, political and moral
commitments of the United States. They’re guaranteed as to principal and interest. They’re backed by the full faith and credit of the United States Government. They will be honored. And if they aren’t honored, I believe it’s a default. And I think our current accounting and reporting is trying to have its cake and eat it too, and it’s causing very confused signals in the American people by not somehow treating those bonds as a liability. What’s the deferred revenue? I don’t know. But I think the idea that we took the people’s money, we spent the people’s money, we gave back an obligation of the United States guaranteed as principal interest, backed by the full faith and credit of the United States Government, counted it in the debt ceiling limit, but not shown in the financial statements of the U.S. Government is a liability and it is a real credibility problem. I also don’t think it reflects reality. I think while trust funds are a fiction, those bonds will be honored.

And I think it also serves to understate a lot of important ratios, debt to equity ratios. There are people who say, well, we don’t really have to count those, our debt burdens are really a lot less than they really are. Well, I don’t know any other country that has these kinds
of fictional trust funds like this. Most other countries, when they have them, there’s actually money in them, like Norway, has like real investments in them. So I think we have to clean that up. I think it’s appropriate to use the 75 year time horizon for the financial statements. I think it’s fine if you disclose perpetuity, but one of the things that I find, you tell Americans this is perpetuity, they go, what does that mean? Well, it means the end of time, they go, okay.

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

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

As far as the name for the statement, what I would suggest is statement of fiscal sustainability and intergenerational equity. But the reason I say that is I’m
also suggesting that you have some disclosures as to what the implications would be in the current path on tax burdens, on cuts in spending or programs. You may decide to do something in addition to that. But I think if you at least show the extremes, and by the way, I don’t think the extremes are the answer, but on the other hand, at least it shows you the bounds and you’re not, it’s not arbitrary. You’re basically showing the bounds. You may decide you want to show something in addition to that, but I think at least the bound would have some meaning. And what that would be at different points in time in the future, if we waited to do something until X, and here’s what it would mean with taxes, here’s what it will mean with spending reductions. If we waited until Y, here’s what it would mean. So people see the benefit of trying to act sooner rather than later, so you can get the miracle of compounding working for you rather than against you, as it is right now.

I think you need to think about additional disclosures with regard to tax expenditures. There’s a lot of emphasis on spending programs and this Government spends over $3 trillion a year at the Federal level. But it also foregoes revenues of a trillion to a trillion to and a half
a year, deductions, exclusions, exemptions, credits, not subject to the budget process, it’s not subject to the appropriations process. They tend not to get a whole lot of review, and you really don’t see them in the financials. I think we need more transparency over that.

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

I think it’s also appropriate that this statement be audited after a reasonable transition period. I’m a little bit concerned about the optimism of how quickly you think you might be able to get this adopted. I think you need to think about that. I strongly support requiring
reporting of debt held by foreign lenders. I think that’s a serious risk. At the end of World War II, this Country had debt equal to 122 percent of GDP, an all-time high. But there was a big difference: it was all owed to Americans. Today, we have debt, you consider both trust fund debt and public debt, we have debt equal to about 75 percent of GDP, it’s probably going to be 85 percent of GDP by the end of this year, it’s going up rapidly, and the big difference is, of the debt held by the public, because they can’t buy the trust fund, of the debt held by the public, over 50 percent is held by foreign lenders, 70 percent of the new debt’s being purchased by foreign lenders. That has significant economic, foreign relations and even potential national security and domestic tranquility implications over time if we don’t change that path. So we need to have more transparency, not only over what our true financial condition is and the nature of our obligations, but who holds those obligations, so that people can understand what the potential other implications are, not just financial implications, but otherwise.

Those would be my comments with regard to the first statement, and I’ll reserve on the second one. I don’t have that much more on the second one, because I
think there’s some overlap.

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

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

MR. WALKER: A doorstop.

MR. JACKSON: A doorstop, actually a good one for a big, heavy door.

So I really think that we as a board and others need to think about that, and to move toward a much more concise reporting, with appropriate disclosures, of course. Because if we want people to do something with this information, they’ve got to be encouraged to read it. It
will be interesting to see the package that you will put together.

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

MS. FRANZEL: One year.

MR. JACKSON: One year. I just can’t remember exactly --

MALE SPEAKER: Two years.

MR. JACKSON: Two years. The thing that I worry about is that if we take, if we go out to infinite, to an infinite horizon, don’t we start encountering problems with being able to assess the reasonableness of the assumptions? A while ago, it was mentioned, we’ve certain things that I think you can deal with, and that’s the policy side of the equation. Those kinds of things, maybe you can assess the reasonableness of the policy sides of the equation. But as I understood Jagadeesh a while ago, we’ve got the other side of the equation, all the demographics and so forth, which I fully can’t comprehend.
However, don’t we start encountering problems with having the auditor to sign off on the reasonableness assumptions that go out long beyond maybe the existence of the human beings, for that matter? So I ask that question, and I don’t know whether it’s, if you were in your old shoes, if you were in your old shoes, and your staff came down the hall and asked you to sign off on the reasonableness of assumptions relating to an infinite measure that takes you out infinitely, it would be interesting to hear what your reaction to that might be when they were sitting across your desk. That’s my first question.

Let me just go ahead and walk through a couple of these, and then you can sort of give them appropriate levels of balance. That really takes me to something that has been repeated by a number of people in which, and you mentioned it a minute ago, that maybe this should be, you didn’t use the term RSI, but this should be looked at maybe as something less than auditable information for a time longer than the three-year transition period. And so others have indicated that maybe it should remain RSI, maybe indefinitely. Then I think my first question to you with regard to whether or not you felt you could sign off
on data that goes out infinitely, and then the observation as to whether RSI would be appropriate for, let’s just say, a longer term period of time, those two questions I think are hand in glove. Would you recommend that the RSI be at status for, let’s just say, an indeterminable period of time?

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

[Laughter.]

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

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

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

MR. WALKER: First, I gave you a copy of last year’s report we had circulated around. We have a new one that’s going to be coming out. We are going to make some changes. One of the things I want to do is I want to have a one-page summary of key statistics right up front, the key numbers that you will care about as a citizen, if you
will, which is what we did when I was a trustee of Social
Security and Medicare 1990 to 1995. And that report’s
read, and it’s about the only thing that is read,
[indiscernible] that comes out of the [indiscernible] stood
the test of time.

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

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

My personal view is that the volatility’s going
to be less when we get through this recession, because
we’re going to have to end up saving more, consuming less.
And that means that [indiscernible] growth rates are going
to be slower, but hopefully more sustainable. Just one
thought.

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

I think there’s more than a little irony, quite
frankly, with the fact that the only statement in the
consolidated financial statements of the U.S. Government
that has a clean opinion is the one with the biggest
numbers. And I think one of the things you have to pause
about is, candidly, beyond the scope of this hearing, but
I’d be happy to come back at another time, I think you have
to re-think the usefulness of some of these other
statements, and what are some of the obstacles that prevent
them from being in a position where you can express an
opinion on them. In particular, I’m talking about the
statement of net assets.

MR. ALLEN: It’s on our agenda tomorrow.

MR. JACKSON: Can I have one more question?

MR. ALLEN: Really quickly.

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

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

MR. WALKER: Yes. In my view, look, the trust
funds are a fiction. They should be called trust the
Government funds. As my boss says, Pete Peterson, he says,
you can’t trust them, they’re not funded. And so, but the
bonds aren’t a fiction, the bonds are real. They represent
a legal, political and moral commitment. They’re backed by
the full faith and credit of the United States Government.
They’re guaranteed as to principal and interest. They will be honored, they will not be defaulted on.

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

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

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

[Simultaneous conversations.]

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

MR. WALKER: I’ll hold that. I’ll hold why the answer’s no.

MR. SCHUMACHER: Well, I had a similar question.

I was curious as to whether, I want to make sure I
understood what you were saying about the liability that we
have related to the bonds that are in the trust fund. Would you propose, some have suggested that the liability
that should be on the balance sheet is only due and
payable. Others have proposed that we should have the
closed group or the open group or some other liability.
Would you propose that what should be contained
in the balance sheet is this liability for the trust fund
plus the due and payable that’s currently on there today?
In the balance sheet?

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

So I actually think there’s more that should be
on the balance sheet, if you’re going to have a balance
sheet. And then several trillion dollars. And m personal
view is, the failure to put that on there materially represents the statement of [indiscernible], materially [indiscernible] miserably [indiscernible] but purely misrepresents the statement of net costs. For example, in the last 40 years, we had 4 years of so-called operating surpluses. If we change the accounting for this, we had 1. Because what happens is that you end up understating your deficits, because you’re ignoring the fact that you’ve already spent this money and you have an irrevocable commitment, and that’s going to have to be met.

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

MR. SCHUMACHER: I understand. Thank you.

MR. ALLEN: John [indiscernible].

MR. FARRELL: David, thanks for coming today.

You brought up a great point about these foregone revenues and how much those might be and how that could impact the financial position of the operations of the Federal
Government. And you use the example of deduction of health
care expenditures by corporations and not claiming it as
income by the individuals who are receiving it. Somebody
else might list the home mortgage interest deduction. You
go onto the other side of that, and somebody might say,
well, what about if we end subsidies to foreign countries.

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

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

What I’m saying is I think we need more
transparency with regard to the major items. I think
obviously we disclose the big ones, and based on the
classification of materiality or whatever else. And the big ones
would be things like the exclusion from income and payroll
tax for employer-provided paid health care, the home
mortgage interest deduction. There are several ones that
[indiscernible] if not all of them. You’re not saying if
they’re good, bad or indifferent. You’re just saying that
they result in a material loss of revenues and it’s
something that people need to know. It’s a separate issue
as to whether or not they ought be modified, whether they
should be eliminated, curtailed, whatever.

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

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

MR. ALLEN: But if you list increased taxes
versus reduced spending --

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

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

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

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

MR. ALLEN: Thank you.

Hal?

MR. STEINBERG: I have two questions, one very basic, one more conceptual. You’re suggesting putting the
trust fund balances onto the balance sheet as deferred
revenue or something like that?

MR. WALKER: Yes, something like that.

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

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

MR. STEINBERG: My other question, though, is you
mentioned the 75 year projection. I suspect that one of
the reasons we came to 75 years is because that’s what the
Social Security trustees have used. It’s their report over
the years. And then you said that the project going out 75
years is very, very shaky. My concern is that when people look at what’s going to happen 75 years out, they’ll go, ho-hum. That’s 75 years from now. Politicians for sure would say, I’m not going to be around in 75 years, so I’m not going to worry about that.

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

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

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

MR. STEINBERG: Exactly.

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

I think if you end up having disclosures, and I suppose, that I’ve suggested for debt held by foreign lenders, that’s an important dimension, I think, that bears on this. I think that to the extent that you add
liabilities for the bonds in the so-called trust funds, that helps. I think that to the extent that you emphasize cash flow, that’s important.

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

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

The statement of social insurance, having this
statement of fiscal sustainability and intergenerational equity will pull those numbers together and you’ll be able to see the big picture.

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

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

For example, the number we come up with, the $56.4 trillion, the total Federal financial burden,
$483,000 per household, $184,000 per person, ten times median household income in America, that comes from the financial statements. It takes a number from the statement of social insurance, and it takes numbers from the statement of net assets, which you presumably pulled together for this fiscal sustainability and intergenerational statement. It takes the those two numbers. There’s great power in saying, look, we didn’t make up this number. It comes from the consolidated financial statements of the U.S. Government. So I think you have more of an impact than you may realize.

MR. ALLEN: Jim?

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

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

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

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

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

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

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

You indicated in an article that I read last night in the Post, the 56.4, your letter to the editor as
well as the number of commitments and obligations that one has, and you alluded just a minute ago to the fact that that is in the financial statements, with an adding machine, you can get there.

MR. WALKER: Yes, right.

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

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

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

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

MR. ALLEN: I think that the balance sheet coming [indiscernible] that we had was an attempt to do that and
say, let’s take the here and now, let’s also add the other, so that somebody without an adding -- can at least on the same page see the numbers that you’re talking about.

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

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

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

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

MR. WALKER: In the case of the exchange for the trust fund debt, I sent in money, everybody here sent in money to the Federal Government. We were told, we paid payroll taxes, we were told that that money was going to be used solely for the purpose of paying benefits for social,
not necessarily for us, but for that program. And therefore, I gave you money with the understanding that you’re going to commit it solely for this program, you spent it on something else. You’ve now put back a bond. That’s the exchange I’m talking about.

In the case of the other, it’s a good question. Unlike pensions and retiree health care, where there’s an exchange of current services for current and future deferred compensation, not just in the private sector, but the Federal Government, I mean, we have an exchange, and we have a big liability hanging up on the balance sheet for pensions and retiree health care for civilian and --

there’s an exchange there. I don’t believe that such an exchange exists for social insurance. And in fact, when you look at some programs, like Medicare Part B and D, my Lord, the Federal Government’s subsidizing 75 percent of the cost. I mean, what kind of exchange is taking place. I mean, you know, we’re in middle and upper class welfare programs. And I can assure you, those programs will be dramatically reformed. But there’s no exchange there, other than, in my view, reasonable people may differ, but that’s how I see it.

MR. ALLEN: Jim and Woody, a one-minute question
and [indiscernible].

[Simultaneous conversations.]

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

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

Secondly, they care about how much debt we have. Thirdly, they actually are interested in who holds that debt. We did a poll, a research poll, about Peter Hart,
who’s a leading Democratic pollster and Bill McInturff, who’s one of the leading Republicans, on election night. And we asked, you know, a representative sample of Americans several questions. Let me tell you, a few things came back that were really shocking. Ninety-five percent of Americans were concerned about the deteriorating financial condition of the United States Government. Eighty-nine percent of Americans were concerned about our increased reliance on foreign lenders. So another reason why I think it’s a real risk and I think it needs to be provided more disclosure.

I think they’re concerned about where are we headed, not just where are we now, but where are we headed, and what are the implications under a do-nothing status quo let it ride path. There are implications for the Country, implications for them and implications for their kids and their grandkids. I think they’re also very confused about these trust funds. There are some people who want to say that they actually have significance, and we don’t really have a problem. My view on that is, we don’t have a crisis on Society Security. There’s no way. And Social Security’s never going to go bus. But we have a problem, and the problem is large, and it’s growing and it gets
worse with the passage of time, and it’s prudent to solve it sooner rather than later, and it’s actually a lay-up to solve it, not a slam dunk, but a lay-up.

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

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

Now, you’ve got to decide what the appropriate line is from a financial standpoint versus other
information.

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

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

    MR. ALLEN: Thank you very much.

    Dr. Galbraith and Dr. Mosler.

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

    [Laughter.]

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

    MALE SPEAKER: that’s the one we were after.

    [Simultaneous conversations.]

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

    [Recess.]

    MR. ALLEN: Could we ask the audience to -- we’d
like to turn the time over to Dr. Galbraith and Dr. Mosler. Again, a very fascinating and different perspective. I talked about different planets, and there are several different planets out there. So I’ll turn the time over to you for any comments you want, and please allow us some
time to ask you some questions.

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

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

What we seek to do in our remarks here is to raise some fundamental questions about the project [indiscernible], in particular to pose the question very sharply whether it is appropriate to focus on these specters of solvency versus instability, which we believe are not well-defined questions, not problems that are likely to arise. And that the track, in fact, for a more appropriate focus on the actual problems that the issues
that we’re examining could pose, namely, specifically, in the short run unemployment, if the management of the economy is not adequate to the current crisis, or in the longer run, inflation if some of the issue of excessive spending are [indiscernible] potentially are not addressed.

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

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

Secondly, the Government is sovereign. This fact gives to the Government authority that households and firms do not have. In particular, the Government has the power to tax and issue money. The power to tax means that the
Government does not need to sell its products and the power
to issue currency means that it can make purchase by
committing IOUs. No private firm can do this. They can
neither require that the market buy their products nor
their debt.

Those are basic matters, in fact, they’re not
controversial. But they tend to, I think, get overlooked
to some degree when we are using the principles and ideas
that derive from private sector accounting to develop
appropriate financial standards for the U.S. Government.
In the real world, of course, what we observe is that the
U.S. Government does tend to run persistent deficits. This
has been true since the beginning of the Republic, and it
is matched by a persistent tendency of the non-government
sector to save. The non-government sector accumulates net
claims on the Government, the non-government sector’s net
savings is equalized by identity to the U.S. Government’s
deficits. Debt issued between the private parties cancels
out, but debt between the private sector and the Government
remains, with the private sector’s net financial wealth
consisting of the Government’s net debt. So this is
something which needs to be taken account of when you
consider the position of the Government in relation to the
national [indiscernible], two general principles I wanted
to raise.

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

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

But in the drafts as we read them, there is
especially no effective treatment of the concept of
assets, either as it applies to the public sector or as it applies to the Nation as a whole. And the important point about developing a balance sheet for the Nation is the transfer programs which have liabilities to the Government are offset by assets to the public. So that very same, very large number of $53.4 trillion or whatever the number was of our net present value of Government liabilities in Social Security is simply offset by comparable asset, Social Security wealth held by the public is a matter of accounting, it seems to me. If we are talking indeed about financial statements for [indiscernible], the accounting should reflect the assets on the balance sheets [indiscernible].

A second issue of definition that troubled us in the development of the exposure drafts is the use of the term budgetary resource. It was never very clear exactly what the term budgetary resource is intended to mean. The apparent concern in the document is that the Federal Government operate within the budgetary resources available to it and that the draft say that the budgetary resources should be sufficient “to sustain public services and meet obligations as they come due.” What does it mean? If what is meant by budgetary resources tax revenue, then that’s
clearly an inappropriate definition. As I’ve already
noted, the Government does not need tax revenue sufficient
to match spending in order to sustain public services and
meet obligations as it comes due. It’s obvious. The
Government almost never has and never has had sufficient
tax revenue for that purpose. It has run significant
surpluses for only seven very brief periods in the history
of the Nation, each of them followed by a depression or
recession because of the effect of those surpluses on the
private sector’s capacity to spend. This is why we have a
national debt to begin with.

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

But if on the other hand the term budgetary
resources is to be construed more broadly, which is
possible, as to mean tax revenues and public borrowings
sufficient to sustain public services and meet obligations,
this too is problematic. The standard in that case was
apparently intended to inform the public about the
borrowing capacity of the Government of the United States. That too is an interesting and important issue. Former Comptroller General Mr. Walker this morning has spoken about it extensively in the earlier hearing. But the procedures outlined in the exposure draft do not contain any information or guidance as to how to assess that situation and that question in an objective way.

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

But the procedure of the exposure drafts, by fixing the economic forecast for the long term, explicitly propose to ignore those [indiscernible] and it sets to draw the inference that there are no real economic benefits associated with the higher growth or lower unemployment,
only financial costs of measures such as the stimulus bill. It’s clearly not a sensible procedure when you are talking about policy that is specifically intended to influence the economic gaps.

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

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

Fourth point, there is in the exposure draft a certain amount of back-door policy-making, and this is related to the concepts of fiscal GAAP and fiscal sustainability. In the draft, the board introduces this
concept of fiscal GAAP and states as a policy norm that it would be desirable “to maintain public debt at or below target percentage of gross domestic product.” And this seems to be accepted in the drafts as a non-controversial position. And we do agree that setting such a target would be better than setting the target arbitrarily to zero. Because it does imply that the public debt can essentially grow alongside GDP, which is normally the case.

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

A fifth point concerns the question of time horizons, which you’ve already talked about at some length this morning. We believe that it is really unproductive to spend a great deal of intellectual effort trying to project the financial consequences of unknown events 75 years or
more into the future. And that there is a tendency when
you do so to incorporate in the assumption projections,
which are prima facie unrealistic. An example of this is
the idea that health care costs can grow without limit as a
share of GDP. Nothing can grow without beneficiary GDP, or
it will end up absorbing all of GDP and is simply an
unrealistic assumption. Something will happen to prevent
that from happening. There will be health care reform or
some other phenomenon but we will not be in an economy with
no resources left to produce food, shelter, industrial
goods and education.

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

We believe, and I’ll be very brief, that it
serves very little purpose, and no useful purpose, to
project financial shortfalls for Social Security and
Medicare and to refer this into the future, and no purpose
whatever to revise those programs today on the basis of
such projections. And in general, we believe that the
notion that there is some unfunded liability amounting to
tens of trillions of dollars in the U.S. Government’s
accounts, and that this has some material effect on the current condition of the economy and the economy in the future is a simple misunderstanding, I use a stronger term in the testimony. There cannot in fact be any such underfunding because the U.S. Government always has the operational ability to make all payments as they come due, and we know, could do so, even if, through some strange accounting mistake or trick, one concluded that Government liabilities exceed private assets.

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

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

MR. MOSLER: Thank you.
I just want to say, I’m 59 years old, I grew up on the money desk at Bankers Trust in the early 1970s. I know how the checks clear, I know how the accounts work. I’ve managed, on one of those, a hedge fund manager, I stated my own fund in 1982. And fixed income [indiscernible] space. So I’m here again because I know how the monetary system works, how the debts and credits work. So I’m going to give you a couple of examples, five examples here.

For example, what happens when a Treasury bond matures? What happens when China’s $1 trillion in treasury bonds matures? What actually happens? Well, their securities account at the Fed is debited and their bank account at the Fed is credited. Done. End of story. There’s no financial event that happens beyond that. Has their wealth changed? No. The financial assets are the same. Instead of having a securities account, which is nothing more than a savings account at the Fed, they have a checking account at the Fed. And then we ask them, what do you want to do then. And if they spend that money by buying or selling something else, we debit that account and we credit the account of whoever they bought it from. There is no money flowing overseas. That whole thing’s
1 been a big misunderstanding.
2
3 How does Government make a payment? We’re
4 talking about Social Security. But let me look at the side
5 of collecting taxes, Social Security taxes. So if I go
6 into the Federal Reserve and I decide, I was a waiter and
7 I’ve got $10,000 in cash, I’m going to pay my Social
8 Security payment in cash. The Fed takes the money, they
9 give me a receipt, they say thank you very much, you’ve
10 just helped Social Security. And as soon as I leave the
11 room, they throw it in the shredder. That’s an operational
12 fact.
13
14 Now, how does taking my cash and throwing it in
15 the shredder pay for anything? Well, of course it doesn’t.
16 The purpose of taxes, we go back into macroeconomics, is to
17 reduce aggregate demand. It has nothing to do with our
18 current currency arrangements for collecting the thing we
19 actually need to spend on anything else.
20
21 And how does the Government make a payment? So
22 I’m looking at my computer screen, I’m 75 years old, I have
23 nothing else to do. I have $1,000 in my bank account and
24 today’s the day my Social Security payment hits. All of a
25 sudden, the 1 turns into a 2. I’ve just gotten paid. How
26 did that happen? Somebody at the Fed changed the number on
my bank account. They didn’t take some gold coin out of
some box and hammer it into the system. They didn’t take
somebody’s taxes and give them to me. In fact, the person
who made the payment doesn’t even have the phone number of
whoever’s collecting taxes at the IRS or whoever’s
classifying the money.

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

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

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

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

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

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

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

Now, the Treasury takes that money and spends it. What does that mean? We’ve got the $100 billion back. So the net result of borrowing $100 billion and spending it is the balances are exactly the same in the private sector,
but there’s an additional $100 billion of Treasury securities out there. And that constitutes the net nominal wealth of the private sector, because everywhere else, it’s loans equals deposits, again to the penny, that someone has to find an arithmetic mistake, assets and liabilities. The net nominal wealth is always equal to Treasury securities outstanding, reserves at the Fed and cash in circulation. Again, these are just fundamental accountings of macroeconomics. We’re trying to bring this discussion back to the fundamentals that have somehow gotten lost. They give a very different picture of what’s happening.

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

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

MR. PATTON: I think your point about focus on
the Nation versus the Government is a good one. And it is true that in our objective we talked about the condition of the Nation and the Government. I think practically we have focused more on the condition of the Government. If that’s right, how does that affect some of our comments?

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

MR. TORREGROSE: I’m from the Congressional Budget Office. I guess we would agree that health care
cannot rise forever at 2 and a half percent above growth rates. But we do long-term projections that show various sensitivities. But under most scenarios, CBO still concludes that we have an unsustainable fiscal path. And by that we mean that the Federal debt will grow faster than the economy in the long run.

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

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

MR. MOSLER: How do you define sustainable? Does that mean when the Government goes to make a payment the guy’s going to get an electric shock when he tries to --
MR. TORREGROSE: The definition here is sustainable in terms of not having a negative impact on the economy, which is the big question.

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

But I would argue that if you got a problem with health care costs rising more rapidly that it’s going to be translated into a higher inflation rate so that your model is not consistent in that sense. A higher inflation rate does mean that GDP will rise more rapidly and the debt to GDP ratio will tend to rise less rapidly than you’re projecting. So in some sense, the problem that we’ve, I certainly concede, is a potentially serious problem. You’ve got some engine that is going to generate, you genuinely think you’ve got some engine that’s going to
generate a higher than tolerable rate of inflation, that’s the terms in which you should be addressing this problem. It is not sensible to say that something’s going to happen that’s going to cause the rest of the world to refuse to accept payments in dollars, or for that matter, the American citizenry to refuse to accept payments in dollars, except possibly through that mechanism. It has happened in history, in 1923 in Germany, for example. But I don’t think we’re anything, in your projections, looking at anything quite that severe.

MR. TORREGROSE: I certainly hope not.

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

MR. ALLEN: Let me broadly ask a question. As I read the letter that you sent to us, I thought there were a number of excellent points. And I thought, okay, how could we deal with that, and onto the next issue where you raise
the point. I concluded, and as I listen to you today, I’m
struggling to say, my initial question would have been,
okay, well, how can we deal with that in our sustainability
report.

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

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

If you could deal with the question of what is a
budgetary resource, that seems to me a phrase which is very
imprecisely defined. And if it means, again, tax revenues, you’ve got a problem that the tax revenues never need to be adequate to cover spending and never will be to be adequate, because the Government has the capacity to increase its net debt over time, if you’re talking about taxes plus borrowing, then, as again you were earlier this morning, it’s appropriate then to ask the question what do you know about the Government’s capacity to borrow.

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

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

MS. FLEETWOOD: I might get killed with my question, but I’ll ask it anyway. I guess what I’m hearing, and again, I’m an accountant, not an economist. So when I listen to your discussion, what I’m hearing, and tell me if I’m hearing this wrong, is the way we present this thing is just unrealistic because it’s not going to
happen that way, because something would happen, inflation or something else that would not make us get up to where GDP would be that high or the percentage of GDP would be that high.

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

So I guess what I was thinking, take into account what you’re saying, if we adjusted it for inflation or adjusted it for taxes or printing money or whatever, other things that we would do not to let this happen, I don’t know that we would be showing the people anything that would be -- I guess I’m trying to figure, like Tom, I’m trying to figure how could I take into account what you’re saying and adjust what you’re doing. And I’m not sure I got my, I still understand. If you had the pencil and you were sitting to write what it would be, what would you want to show? What would be meaningful for us to show the
public as best as we could at this moment so the decision-makers could make decisions to avert whatever may be the future?

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

That seems to me to be a problem of which there’s wide understanding. It’s not obvious to me that these fiscal projections are constructive, because they tend to focus on Medicare. And Medicare is the portion of health care which has the least of that basically unnecessary use
of resources for accounting purposes. So that it strikes
me that there’s a problem of focus in the way in which the
health care issue is addressed.

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

But the other thing I would bear in mind about
that is that as we speak, in the present crisis, for the
population that is now elderly or about to become elderly,
so much of what we expected as a Country to them is clearly
not going to be. The value of their houses has fallen, in
some cases by over half. The value of their holdings in
the stock market has fallen by half or more, and we have no
assurance that it will recover, that it will recover for
this generation of elderly.

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

And so it seems to me that one needs to be
conscious about the way in which the framing of these
issues drives the debate the focus on the so-called Social
Security and Medicare entitlement question, when really
what we have here is in Social Security, a program which
effectively keeps a large portion of the elderly population
out of dire poverty, has done so for decades. And in
Medicare, we have the part of the health care system which
actually in many ways consumes, besides the fact that it’s
dealing with the elderly population who are per se more
expensive to deal with, but consumes per unit of health
care probably less than much of the rest of the health care
system, and is not by itself the size just of the health
care issue, in other words, when you have to do the amount
of care that we provide and the fact that we provide it
very inefficiently by allowing chronic conditions to
develop amongst uncovered people who then come into
Medicare as expensive cases.

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

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

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

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

Just to add quickly, on the previous question, if you look at Japan, with a GDP of over 100 percent, downgraded below Botswana, and their securities, three month bills go through at zero percent and 10-year notes at 1.3 percent. Clearly these are not, these concerns, there’s more going on. It’s not about creditworthiness, it’s not about somebody willing to buy your debt.
All these countries, Turkey would have gone out of, defaulted long ago. They issue quadrillions of lire of securities every week. They don’t even have calculators that go up that high. So it’s got nothing to do with the normal concerns. And yet, you’re exactly right, and that’s what we’re trying to do, I think. Go ahead, you can elaborate on that.

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

Why is this happening? Why was there a flight to the dollar and to U.S. dollar-denominating securities just a moment when a financial crisis was hitting that actually
originated in the deregulation of the housing finance sector of the United States? I don’t think that that question has been asked in official circles in Washington, and I think the answer to that question would give us some real insight into these matters of just to what extent and to what degree of the U.S. Treasury’s borrowings, long-term borrowings at the current rate, 3 percent or so over 10 years, is, are sustainable.

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

MR. MOSLER: And in terms of concern over whether or not they will buy our securities, I’ve been in these financial markets for years. And I can tell you, they’ll get sold to the second highest bidder, which is one basis point higher in yield, or maybe two, especially in the short end. Maybe not even that. And in the long end, of course, that’s, they’re not operating along that for the
most part. But the worst thing that happens is that it affects the yield curve a little bit. It’s certainly not our concern for political purpose like it’s been made out to be.

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

[Laughter.]

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

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

MS. FRANZEL: I’ll preface this by saying I’m an accountant, and I just want to make sure I’m not misunderstanding the main point you’re trying to make. Because when I think about how financial statements are used in the private sector, and given the state of the stock market, this is probably a really bad example right now, but I’m going to use it anyway, you know, the accountants prepare the financial statements and they’re
audited and that’s really used as a starting point for objective, neutral, fact-based information with proper disclosures. And that’s a starting point for some of the financial analysts and others who are taking a look at that data, they’re making some adjustments, they’re looking at the broad, overall economic context, the industry conditions, et cetera. And then really making recommendations about the future of the company.

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

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

MR. ALLEN: If you were going to comment, and
I’ll ask you to do that in writing, if that’s okay. What we have, how it could best meet the goals that Jeannette laid out. In other words, if we go ahead with the project, what ought we to provide some additional information that would help in the analysis that you’re talking about after the issues that you’ve identified as —

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

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

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

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

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

MR. MOSLER: Feel free.

MR. ALLEN: Thank you.

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

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

MR. ALLEN: That’s a downside. That means we’ve
talked about this project way too long.

[Laughter.]

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

And that really is, I guess, what I’m about, about the couple of comments that I’d like to make to you
today on these two topics. I’m only an actuary, and actuaries, like accountants, tend to know just enough economics to be dangerous. But fortunately, not quite as dangerous as real economists.

[Laughter.]

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

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

Okay, so starting off with fiscal sustainability,
and I hope you’ll allow me to refer to it as that other than the [indiscernible] long-term projection, et cetera, et cetera. Because that is the way that you all paraphrase it, and to me, that is really the gist of what you’re getting at here and what you’re trying to convey, so people will understand.

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

In order to do that, I think we have to be very careful about defining what it is that we’re trying to achieve, and therefore what we’re trying to achieve and then sustain. And sustainability means you’re sustaining something, what is it we’re trying to sustain. We’ve had a lot of discussion about the idea of is it solvency, is it something else. My sense is that what you really have to do, and I think you really touched on this well, but you
touched on a number of things. I guess my hope here is to try to push a little bit towards emphasis in some areas more than others.

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

What can really make a difference, I think, is on sustainability, two things. One is to say, well, what is it we’re trying to show what we can do. And the gentlemen in the prior panel I think were right on the count of saying that it’s about distribution and it’s about how much of what needs to be done for the elderly for health,
whatever will the Government be doing. And if we simply
look on a year by year basis into the future, what the
projected expenditures, obligations, whatever we want to
call those, would be expected to be in a number of future
years, every tenth year, whatever, taking it out for a
period of time, see what those represent as a percentage of
GDP for the various programs and combined for the Federal
Government. That will give us a sense of what our
expectation is of what the cost of these things will be.

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

Well, I would suggest that the job of the
reporting entities, OMB, CBO, GAO, Treasury, and the
guidance that you all provide, is not really to say that
going from 20 percent to 30 percent, as David Walker
characterized it, is unsustainable. Because really what’s
sustainable is what the American people want the Government
to do. If 40 years from now a different group of citizens
than we have that are of our age today decide that they
think 30 percent of GDP for the then much larger elderly
population, perhaps larger disabled population, they think it is appropriate to expend 30 percent of GDP at that time through the Government for the kind of services that they now spend 20 percent of GDP for, who are we to sit here today and say that that is not possible, that it is unsustainable to go there?

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

The second order question is, I guess, the question, are we sustainable in terms of, do we have scheduled enough financing to be able to pay for these commitments, these obligations, these expectations, these intents, really, of expenditure in the future. In the areas of some programs like Social Security and Medicare Part A, the HI Trust Fund, this is reasonably well-defined,
because there are limits on how much spending can occur. So we can actually say what the expenditures are expected
to be, what the obligations are, and we can actually put in
what the scheduled revenues are for the payroll taxes and
we can compare those.

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

On the other side of the ledger, the non-
entitlement side, though, what do we have? We have the
other expenditures of Government, which we tend to, I would
say rather blithely, projecting the future of [indiscernible], whatever share of GDP they are now, we’ll just keep it that share of GDP. Tax revenues may be the more interesting way we look at personal income tax, and we say, well, what share are they of GDP right now. Well, we’ll just give them the same share of GDP in the future.

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

On the tax side, for personal income tax, we actually have in the law a provision that says that the marginal tax brackets will go up with CPI. Marginal tax brackets going up with CPI means there is still some, not as much as there once was, but there are still some bracket free. The average personal income tax rate will rise. Eventually, we’re all in the 36 percent or whatever the top bracket is. Because if we move the brackets up only with CPI and there’s real growth in our [indiscernible] income, eventually relative to the average [indiscernible] level, the brackets shrink and we all move to the top bracket.
So to project that the income tax revenues are a flat percentage of GDP, while we show the cost of entitlements rising with the law, it seems to me there’s a disconnect and there’s an inconsistency. So all I would really request is that in putting forth these numbers going out into the distant future that there be a consistency here. I think that is a bit of a challenge, because we’re talking about current policy, current policy, current law. The exposure draft did a really good job of putting forth some of the issues here.

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

The other point that I guess I would make about this particular area is the idea of the generational equity question. And the generational, trying to look at these numbers in an intergenerational fashion, which we do in the
[indiscernible] and a lot of people like to look at things on a generational basis, this seems to me to be very, very problematic. It’s not just from the point of view of oh, we worry about pitting one generation against another. But when you think about generational issues, gee, each generation kind of decides what their kids’ obligations are going to be toward paying for things in the future really by how many kids they have. Perhaps by immigration policy, too. That comes into play.

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

So the cost of providing Government services and private pensions, of providing anything you want to think about, this isn’t just Government, of providing anything when we have a higher ratio of aged and/or disabled to working age population is going to be greater to provide any kinds of benefits [indiscernible] otherwise at a given
level. All that really means is that we go into the future with a simple, and this is where actuaries, this is the other half we know just enough to be dangerous, about demographics, when we look out we see this aged dependency ratio that you all are very familiar with. I think it’s in the FASAB standards and we’ve got it in financial statements, we’ve got it in the trustee’s reports. This pretty much really tells the story about where we’re going in the future in terms of the level of pain, the level of cost that we’re going to have to be bearing in future burdens.

And to describe this, though, as there’s an unfair generational inequity, by future generations will have to pay more because they happen to be of a smaller birth cohort, I guess my question is, what is really the point of that? Should we tell them that because your parents decided to have fewer children that you have been treated unfairly? The bottom line is, get a life. It is what it is. We are at a point now of having 2 children per woman born in this Country. Actually, we should be quite happy about that, compared to most of Europe and Japan, where 1.5 times what they are, and a lot of them are, you know, Italy, Japan, they’re at about 1.2 children per
woman, we’re at 2. So we’re still at a replacement level, which means that our ability to be able to pay for things in the future with our workforce is going to be much better than many other countries.

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

The other extreme is say, you know, all these people are right, 20 percent of GDP is what we generally paid in the past and like the speed of light, like pi, like other constants of nature, 20 percent is it, that’s what this Country is going to do, Germany and France and Japan haven’t gotten the memo on that one. But maybe in the
United States if this is a constant of nature we will always be at 20 percent of GDP. If in fact that is the case, and that I would suggest is not really our decision to make, I think future generations, some of the younger people around this table that are not here at this table will be making those decisions decades in the future. But if 20 percent is where we end up staying, clearly, then, the expenditures will have to come down. There’s no question about that.

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

There was one comment that was made earlier about whether or not we should in the overall Federal Government document in [indiscernible] the trustees reports get into what should be done, what can be done to fix the problem, to fix any financing shortfalls that we have. David spoke to this. We do have in our trustees reports, as many of
you are very well aware, some indications of while the shortfalls that we have for Social Security could be fixed if we add like a 1.7 percent increase in the payroll tax starting right now and forever, these are not intended in any way, shape or form to be policy prescriptions. Nobody in the world is talking about having a payroll tax rate increase of 1.7 right now. All that would do is build up our trust funds for another 20 years to much, much higher levels. Folks on the prior panel would, so what. And to a great extent that is really kind of true.

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

Because what the real truth of it is, that we have payroll taxes that we can project, in a sustainability presentation of the type that you are talking about, what
we do in the [indiscernible] report, we can show on a year by year basis what the payroll taxes are looking like. We can show on a year by year basis what the benefit obligations are looking like. And we can see what the difference is between those.

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

Now, the one thing I really did want to comment about what was in the sustainability report. I know that the normal budget accounting is where clearly you include in your expenditures interest. This I think becomes a very, very dicey issue in a longer-term projection for the matter where you’re projecting under current policy
significant and maybe even rising differences in the cash
flow balances, where your expenditures are projected to be
in excess of what your tax revenues are going to be.

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

Because remember, the interest, like in year
2060, is just a matter of how much of an extra debt burden
we could build up from all the shortfalls between now and
then. And it’s just a reflection of that big, aggregate
build-up. From a point of view of sustainability, I would
suggest the question is, can you run those kinds of
deficits to build that kind of debt up that far. The
gentlemen in the prior panel were saying, well, maybe
[indiscernible]. I think in the kind of framework that
most of us think of, we think of yes, the debt to GDP and I
[indiscernible] if 100 percent is being a target or short
of a limit, makes a lot of sense to be thinking in those
terms.

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

MR. ALLEN: Would you make comments on the
sustainability or [indiscernible]. You raised some key
issues, I was going to ask you off-line, if you want to
provide some of that in writing to us. Because some of
that is beyond even the questions that we laid out for you
and what you had indicated there. But maybe from what
you’ve said right now, we can ask some questions.
MS. FLEETWOOD: I just had a question, when you were saying lay it out year by year, are you really feeling that you should do net present value because that obscures it or it’s hard for people to follow? You really want it laid out year by year? Is that the point you were making? I just want to make sure I understood.

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

That’s maybe a little bit more tractable. That means that on average, if we captured another .6 percent of
GDP over the next 75 years, that would hold the gap for Social Security. Now, most people might have some concept of what that means. Think of all the goods and services that we all buy and trade in every day and every year and put 6 percent of that, if we capture that much, that would sort of fix Social Security over the next 75 years on average. Four point three trillion, I think that just goes over the top.

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

But when you start talking about numbers this enormous and this large that are impossible to comprehend, it makes some of the kinds of things that we should also be paying attention to, not really in the purview really of
FASAB, or what I deal with from day to day, but it diminishes the impact of talking about this year’s shortfall and this year’s Federal budget deficits of a trillion. I [indiscernible] just sort of an optics problem [indiscernible].

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

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

MR. SCHUMACHER: Can I ask a follow-up question on that? Wouldn’t that point at present value lead you to
the trend graphs and the more information, but you’d initially get the person’s attention with the present value, and then they’d ask some more questions and then they’d go to the more detailed projection?

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

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

[Simultaneous conversations.]

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

MR. GOSS: Well, I think as people have been
talking about, the balance sheet has certain purposes, and
our performance and accountability report on Social
Security, we have under the financial statements, we have a
balance sheet on one page, where we have the assets and the liabilities, and four pages later, we have the statement of social insurance where we show these open group forward-looking numbers. These are very different conceptually, I would suggest. They’re both there to sort of intermingle them on the balance sheet, which has a very, very clear and present purpose to go and say it’s not good enough to have them four pages later, where they stand by themselves in the context of this is forward-looking statement of social insurance, this is what we’re looking at over a 75-year period. Some think it’s too long, some think it’s too short. Maybe it’s a good compromise therefore.

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

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

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

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

MR. GOSS: Well, on a graph you can do individual
year. But we may be talking about slightly different
things. What I’m talking about is sort of the annual
flows, like in the fifth year, the tenth year, the
twentieth year, the thirtieth year, the summary number that
takes us up to the 50 or the summary number that takes us
up to the 20th year, and so on, to actually show what the
flows are, and what we’d be dealing with in selection of
years. You’re right, every single year would be too many,
especially on a table. But on a graph with bar charts and
I think you have a number of these in the exposure draft that were put together very, very nicely, to show what the difference is between these.

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

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

MR. JACKSON: Two sort of brief questions, maybe
one observation. You mentioned a minute ago that if the
outlays begin to exceed, let’s just say resources, I’m
using that term, the trust fund balances plus receipts,
then that would take a statutory [indiscernible]. Doesn’t
the statute, we talked about this before, doesn’t it
automatically trigger? I mean, once the 78 cents becomes
the optimum amount available, doesn’t the benefit
automatically drop?

MR. GOSS: It does, and that’s a really good
point.

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

MR. GOSS: And we have statutory limitations,

once the trust fund, once we have no more reserves
available to augment our tax revenue, then we drop down to
only having 78 cents available, here’s the really
interesting part: there is no absolute prescription,
because fortunately, we’ve never got there and we never
expect to. There’s no absolute prescription about exactly
what would happen. Our general counsel at Social Security
across several Administrations now has been consistent in
saying if we ever hit that wall, again, pray we never do,
that the commissioners at that point would be in a position
to decide what exactly do we do, do we pay our 78 favorite
people out of 100, do we pay 78 cents out of every dollar of benefits?

MR. JACKSON: Well, Woody’s benefits --

[Simultaneous conversations, laughter.]

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

After a few months of doing this, well, we’re going to have to delay two months in order to pay the bills. Now, this is where you’re going to have to work it out with the landlord, and this is something again that, we’re into Congress, we’re one of those 535 or 6 people, we’re probably not going to want to have to tell our constituents about that you’re going to have to start waiting a month and waiting around two months and then three months to get your full checks. That would be
difficult to do. But that’s the world that we would actually be in.

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

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

MR. JACKSON: And just on the simple side, I look at this statement, I think this is the one that would be
the basic statement, is that right? Just to make certain
that I don’t mis-read, because I’m notorious for doing it.
If what I’m hearing you say is that what your preference
would be, these are the sum numbers, they swamp you. These
right here, present value in trillions.

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

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

MR. GOSS: For that year.

MR. JACKSON: For that year. And you’d see it
step out, and then it becomes more intellectually absorbable by the reader.

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

And if the problem is that that’s not scary enough, if it sounds like 2045 is a way off, well, I apologize, but that is where the problem actually does occur. And to try to say that a problem in 2045, a shortfall, is an immediate problem that has to be funded currently, there’s a risk in doing that. I think we have seen the results of taking that risk. The risk is that when people get it, when people figure out that you’re not
sort of laying it out straight, they won’t pay attention.
So I’m just suggesting, so why don’t we lay it out straight.

MR. JACKSON: Actually you need to --

[Simultaneous conversations.]

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

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

MR. GOSS: I think the motivation for showing these summary numbers, which say $56 trillion or $4
trillion for Social Security, has been to make it sound
more immediate and it is true that when we have large
problems that are in the future, there’s no time like the
present to be planning for it and to start to get people
thinking about it to make changes.

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

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

But to say that in fact we’re going to do
something by way of putting $56 trillion in the bank right now, and that really would be meaningless, because the core question we would have to ask then is, $56 trillion in the bank now, when we actually go to take that money out of the bank in 2041 or in 2019, what would the implications of that be? And that’s where the rubber really meets the road. That’s when you’re actually going to spend the money, when you’re going to make a difference in the economy, the Government’s going to weigh the money ought and transfer it from one person to another.

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

So it is kind of a transfer. There’s a different incidence of tax, if you will, that occurs under the framework. But this is the sense in which I think it’s useful to think of this as sort of a pay-go kind of
concept. Whether or not you think we’ve got all that money sitting in the bank right now, you’re going to have to actually come up with it and generate it later. That’s why I think you’re looking at it one year at a time in the future and seeing what these trends look like is really critical to the understanding of what we’ll be facing.

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

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

MR. GOSS: Everything in life is relatively, clearly. When we were talking about the relative value of the dollar, the dollar’s doing pretty good now, but as everybody else [indiscernible] even worse than we do around the world. In terms of our economic assumptions, we actually had a very interesting discussion over at AEI a while back, a guy named Chuck Bonhouse from the last Administration made a presentation at AEI comparing it with the last 25 years how well the trustees have done on their first 10-year economic assumptions. He found that about
half of the time we were too optimistic and about half of
the time we were too pessimistic. And on average, we came
out to be about even. And we have found that to be the
case, also.

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

I think our assumptions have proven to be good
over time. And the one other point that I think they were
making also was, are they reactive, are they reactive to
different kinds of policy. Two quick points on that.
First of all, in the trustees report, and I think in our
financial statements, we don’t really pretend to put
forward changes in policy, changes in law that would fix
things. These really are intended to be financial
statements of what will happen if, we Tom was describing
earlier and other people were describing earlier.

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

Do any of our assumptions reflect that kind of
situation? The answer is on. And to be absolutely honest,
and I think this is where CBO came out at that time and
where we had been for a long time, to be honest, our
economic assumptions really reflect what we think probably
makes sense assuming that something reasonable is done in
the future, that somehow we’ve either lowered the benefit
structure or raised the taxes. And we keep things kind of in balance, whether it stays at 20 percent of GDP for [indiscernible] spending, goes to 25 percent, may not really matter, as long as we have things reasonably in balance and we don’t have debt growing to oblivion.

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

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

MR. GOSS: The means of financing?

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

[Simultaneous conversations.]

MR. PATTON: Okay, that’s another way of doing it. Question 2 on social insurance. Down toward the bottom it says, any program with future obligations that are intended to be and will be financed on a current cost basis as obligations come due will have a substantial
closed group shortfall, even with financing expected to be perfectly adequate. And since you’re not in favor of reporting a liability for social insurance, I was just trying to sort of expand that notion to any program where the future payments are going to be made via financing that occurs in the future that don’t have an obligation today and therefore not a liability.

MR. GOSS: That’s good -- I think the thought about liability and social insurance has been based, in my mind, not so much on that as on the basis of whether or not there really is sort of like a, absent [indiscernible] legal binding commitment to pay the benefits. And of course, the history is that Social Security benefits can turn out to be whatever Congress wants them to be right up until the last minute. I guess my thinking on this, and where I thought we were in terms of the sort of pay-go aspect, and it’s not just Social Security and Medicare, but it’s really everything in Government, is that a closed group kind of analysis there, almost even liability considerations apart to show that if we were to shut down additional tax revenues coming in, which would be like a pre-obligation point of view, or shut down new entrants into the system, a different kind of closed group aspect,
and just show all of the obligations that would pertain to
this closed group of individuals or that have been accrued,
but only show the revenues that have been generated to date
or that will be generated just for this closed group of
people that are currently in the system, that that simply
fails to portray what the finances look like under a pay-go
system.

When the Congress, when the Government puts
together a form of benefits, a form of Government
expenditures, it also puts together its intent and its form
of how it will be financed. And if the intent is that it
will be financed on a pay as you go basis, where we pay a
dollar this year, we’ll pay it by generating a dollar from
taxes in that year, that we really have an obligation to
portray it that way and to evaluate it that way. To say
that in the future, what did if we did with, for instance,
defense expenditures? Actually, the Constitution requires
that the Government provide defense for the United States.
The Constitution doesn’t actually require Social Security
or Medicare. So if we would put what we think is a present
value of defense expenditures for the next 75 years, or
infinity, and put up that amount of money, versus what is
the amount of money we have, negative $10 trillion, of
right now the publicly-held debt, should be able to pay for that, that would look pretty bad.

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

MR. PATTON: One thing you said was there’s no legal obligation, and under FASAB’s definition of liability, we don’t need a legal obligation for recording a liability. Secondly, I think we do spend some time talking about the differences between the apparent, at least to me, obligations under social insurance versus other ongoing programs of the Government. So I think there are some
distinctions to be made, but we’ve already done that in print, so I don’t want to repeat them here.

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

MR. PATTON: I’m still there, but --

[Laughter.]

MR. GOSS: Well, that’s great, I wish we had more time.

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

MR. FRANZEL: Based on everything you’ve said and based on your comments, I think I’m concluding that this illustration number 3 is something that you’re saying we shouldn’t do any more. I will tell you, this is how I conceptualize the whole problem, because this is how we’ve all learned about the problem. And maybe it’s because I’ve seen this picture so many times that this is how I visualize the problem. But I’ve heard you say that we
shouldn’t have interest here eating up half of the spending, and we’re putting certain assumptions into Medicare and Medicaid and Social Security here while holding other things constant, and that perhaps this thing is misleading.

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

MR. GOSS: Well, just very quickly --

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

All right, we’ll ask our next speaker up.

Another Your Honorable, then.

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

[Laughter]
MR. ALLEN: Thank you. We don’t often get a copy of a book from those speaking before our Board.

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

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

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

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

[Laughter]

MR. DIOGUARDI: Well, I would say that Arthur Andersen had a problem with prosecutorial hubris. The Justice Department went after a firm with 50,000 employees, when they could have gone after the three partners in Houston
handling Enron. When the case went to the Supreme Court, the verdict was in favor of Arthur Andersen nine to zero, but by then the firm’s reputation was killed. That happens to individuals, by the way, as well as to firms. And there’s a lesson to be learned in that, but that’s not for this session.

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

By the way, I had to make the decision to leave the firm, not knowing I could be elected. When you are in an accounting firm, you have to leave before you run. Otherwise the public may think that you’re being supported by the firm, and this would hurt the independence that
these firms stand for. So I left. And, thank God, I was lucky enough to win as a Republican in a Democratic district. I tell many of my friends that I was the accidental Congressman, because if my party thought that I would win, they wouldn’t have given me the nomination to run. I was the “sacrificial lamb.” But, I fooled them by winning, and now I’m here today with four years of great experience in Congress on the Banking and the Government Operations Committees. (I think they’ve changed their names somewhat today.)

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

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

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

[Laughter]

MR. DIOGUARDI: But when you think about the important financial accounting exercise that Arthur Andersen went through, and then you think about the Treasury taking it up, and now I’m reading this statement and the first thing that hits me is, we don’t have a liability for Social
Security on the books. I could understand that, politically, some didn’t want to publicize a $50 plus trillion obligation for Social Security and Medicare, but I still believe that there has to be a liability recorded, and I’ll tell you why in a minute. But I couldn’t understand why the FASAB didn’t at least put the non-public portion of the national debt represented by Treasury bills on the financial statements. So I asked one of your staff. And the answer given to me was, well, we use consolidation accounting principles, and therefore we eliminated that $4 trillion liability in consolidation against the Social Security trust fund.

I said to myself, “Boy, that doesn’t make common sense or sound like fiscal reality.” You have to have at least the bonded debt, even though a big part of it is held in the trust funds, on the books of the United States of America. And if you have to do it by calling it deferred income, so be it. Some of you belong to country clubs and other social clubs. If you pay your dues in advance, they can’t all be put in income. A portion has to be set aside or deferred as income in order to match those revenues against related expenditures. That’s simple accounting,
and why anybody would say that it shouldn’t apply to the
U.S. government is beyond me.

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

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

“An accrual for Social Security benefits is reflected
in the accompanying financial statement because of the
fears that such benefits could not be terminated or
substantially curtailed without serious social and
political implications. (Social Security receipts and disbursements are also included in the unified budget.) Further, in principle, the consolidated financial statements and the accumulated deficit should reflect the liability for the amount of future benefits that will not be covered by future contributions under present law. Under this principle, inclusion of an accrual would seem to be both proper and required. It is recognized that the Social Security Act states that payments should be made only to the extent of the trust funds, and that covered individuals who have not contributed to the fund have no contractual right to receive benefits. However, this does not negate the need to accrue a liability."

I could go on and on and give you what the compromise was and how they decided to put the liability for Social Security on the financial statements in stages. But for now let me just say that this is a very important issue. The other important issue is the 800 pound gorilla that is not in this room. It’s over there in Congress, and it’s over there in the Treasury Department. And you are in effect a hostage to that. Because this organization, unlike the proposal that I had in my bill, is now funded by political entities that may think differently about the
things that we are discussing here today. The Treasury Department, I understand, gives you 25 percent of your budget; Congress through the CBO gives you another 25; and there are another two such entities. I’m not saying that that is wrong, but there is a perception that the rules that you are making here could be influenced if one of those entities did not like the end result. And I saw that first hand when I introduced the bill for a Chief Financial Officer, which evolved from my days in the accounting profession. When I brought the concept to Congress, there was an intention that the CFO would not be subject to politics. It was intended that the CFO, not just the deputy CFOs, would be extremely qualified individuals, and that the CFO would not be part of the Treasury Department, would not be part of Congress, but would act in an independent way. This would be much like the Comptroller General, who has a 15-year term, not coterminous with anybody’s election, or even something like the Federal Reserve System, where accounting standards, like monetary policy, would be divorced from politics once and for all.

And that concept was first espoused by Leonard Spacek of Arthur Andersen in one of his 250 speeches, as a Managing Partner of the firm prior to Harvey Kapnick. He
saw the need for independence and objectivity in the private sector, when publicly traded corporations were trying to game the system by picking alternative accounting principles, whether it be for depreciation or the way in those days that they accounted for the investment tax credit. Spacek concluded that the only answer was an “accounting court,” a body that would take away the promulgation of accounting principles and standards from those who would appear, in the public’s eyes, to have a conflict with doing this.

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

But I spent 22 years at Arthur Andersen, 4 years in Congress, and now 20 years as a public advocate for fiscal responsibility, and decided to write a book that would trigger a public outcry on the lack of fiscal responsibility and financial accountability in Washington. This was not an easy book to write, and I used somewhat
outrageous chapter titles to get key points across. If we can’t get the people to do something about what’s happening, all your work is for naught.

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

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

Now, one would think that this would be an easy thing to do. And I even designed something that you probably saw in the brochure that I gave you, where I presented prior
year’s financial information in the form of a credit card statement, because I realized that most people don’t own shares of stock. (If they do, they do only indirectly in their pension system.) So I said, what about starting off with your balance due at the beginning of the year—your share of the national debt. (You can do it by family or you can do it by individual.) And now we add what we purchased for you, for your share of defense, Social Security, etc. We go right down the line, listing all the major expenditure items disaggregated.

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

Now, it’s not perfect. But it was a simple way to convey to the public that the deficits are creating additional debt that has to be paid by someone in your family. And, on second thought, it should be a family
thing, because the family goes on to future generations
even as individual members pass away.

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

What is the operating cycle of the United States of
America? I was the chairman of an AGA (Association of
Government Accountants) task force in 1993. After I wrote
Unaccountable Congress, they called me and asked how can we
change the budget process? I said that it wouldn’t be
easy, but that they should appoint me to chair a task force
on “Truth in Budgeting and Accounting.” And you’ll see in
the brochure (that I handed out earlier) a four-page AGA
Task Force report containing six recommendations for
changing the budgeting process.
Now, I know from your staff that the FASAB is not mandated to consider or change the budget process. And, while I can understand that, one might ask why? The United States government has an operating cycle that is three to four years. And what we’re talking about here today is only the end of the cycle. It starts with budgeting and spending. Then come the accounting and reporting. That’s the three- to four-year operating cycle I mentioned earlier. But if you don’t take generally-accepted accounting principles and reflect them in the budget process, the cats are out of the house. (When you go on a vacation and you have four cats, it’s very difficult to get them into the van once you have let them out of the house.)

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

And, while this will not change tomorrow, we need to understand that if you don’t integrate accrual concepts
under generally accepted accounting principles (even with some modifications for the federal government) into the budget process, then the financial reporting process is already compromised and may even become meaningless—because we’ve already appropriated and spent the taxpayers’ money and have also already committed a lot to be spent later. Now you are left only with disclosing what was spent or committed. Hopefully, with a report on fiscal sustainability, we can point the way to the future and get the public interested in what went on at the beginning of that cycle, so that they will then become active in the whole process. I think that this is the most valuable result that comes from what you are doing here today. And, by the way, I agreed with most of your board’s conclusions, as I said in my written statement, which I’ll be happy to repeat here. In any case, they are there for you to read and to understand my thinking on each of the issues to which I responded.

What you are doing that’s most valuable is trying to give information to the most important constituency of all, the people. Why is that important? Because unless they are informed and unless they get motivated, and in some cases even angry, you’re not going to get the changes we
need to stop the financial tsunami that will dwarf the next
generation. I’ve listened to the economists, and they can
talk all they want about economic philosophy. You’ve got
to go back to accounting. And, now, I will take a few
minutes to tell you who I disagree with and why I disagree
with them.

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

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

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

MR. ALLEN: Go ahead, we started you a little bit
late. We’ll go until 5 after.
MR. DIOGUARDI: Well, I’m supposed to go on until
12:15, I think.

MR. ALLEN: Yes, sorry.

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

[Laughter]

MR. DIOGUARDI: David Walker, the former Comptroller
General, who testified earlier today, said that he doesn’t
see the need to record the unfunded liability for Social
Security and Medicare of approximately $53 trillion. But
he’s right on the money when he says that it’s ridiculous
that we’re not putting at least the entire bonded debt of
$10 trillion on the books. And, that’s something you need
to address, whether you call the trust fund surpluses that
have been spent and replaced with Treasury bonds, deferred
income, or something else—it has to be done. But I
disagree with Walker that there’s “no exchange” regarding
Social Security and Medicare, and that therefore no
liability needs to be recorded for the estimated $53
trillion mentioned above. He’s looking at a concept that
he may have become familiar with in Washington, and he may
have forgotten what he learned at Arthur Andersen. While
the concept of “exchange” may be a valid legal concept,
Walker is saying that if you can’t show that there’s something exchanged, like services for benefits, then a liability should not be recorded for Social Security and Medicare.

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

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

And, by the way, he should be the last one to suggest this, because every time the Pete Peterson Foundation,
which he serves as President, takes out an ad in the paper—like the big two-page ads in *The New York Times*—$53 trillion of liabilities for Social Security and Medicare are put where everyone can see them. (Now he’s up to, in a recent article in *The Washington Post*, $56 trillion.) You can’t speak out of both sides of your mouth. If you’re going to advertise to the public that the debt for Social Security and Medicare is $53 trillion—and we’re not saying funding (let us not confuse funding with reporting)—then you’ve got to report it as such. And he should know that political reality better than most.

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

Now let me respond to another issue mentioned by one of the economists who testified earlier. He said that you don’t have to worry about anything, because if we have deficits and we’ve got bonds, the money basically comes back to the public as expenditures and it’s a wash. It
sounds like the consolidated financial statement rules mentioned earlier as a reason not to record a liability for that portion of our bonded debt in the trust funds. It’s again an inane result. What he failed to tell you is that we don’t spend all of our money in the United States. We’re in a global economy now. We don’t know how much of what we’re borrowing is being spent abroad, like the expense for the Iraq war. So our citizens are not benefiting from that, financially.

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

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

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

Another earlier speaker said that “it is what it is,”
regarding intergenerational equity. He said that we used
to have three kids in a family; now we have two. I don’t
accept that. We still have an obligation to at least report on intergenerational inequity.

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

So the issue is not to look at just the size of the family, look at the potential of two people to become three, four, five, and six, if we are competitive, and if we give them the tools they need in order to be productive in technological terms. U.S. companies like Microsoft and Google—that’s what’s keeping this country ahead of the game. But we need to provide good financial information to stay on track for fiscal sustainability.
So with that, let me conclude, and then I’ll take any questions you want. You’re going to hear a lot more from me, because I’m now taking Truth in Government public. We’re going to become—and I just spoke to David Walker and he is thinking the same thing—that it’s not enough just to inform people. You need to create a grassroots lobby, just like Howard Jarvis did in the ’70s with Proposition 13 in California. And I’m going to now convert Truth in Government to a 501(c)(4) advocacy organization. And we’re going to make sure your information gets to the right people, so that they can act on it. Because without them acting on it, nothing is going to change.

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

Now, let me tell you what happened to me as a new Congressman in 1985. I kept holding my voting card up and
saying, “This is the most expensive credit card in the world.” (I don’t know whether you know that a House Member’s voting card is the same shape as a credit card.)

So every speech I gave, I took it out of my pocket to remind my colleagues that they were passing on a debt to the next generation, and much of it was not even reported. That’s why I put the Congressional voting card on the cover of my book with the inscription: “Credit line unlimited, expiration date never, bill to future generations.”

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

You know what they were doing? They were listing every check that a Congressman spent in his or her office with no totals and no cross tabulations. But they thought that they were disclosing everything. You had to have your own calculator to put it together.
And that’s when I realized that we were in trouble.
The powers in the U.S. Congress were reporting to
themselves by listing every check in the check register.
They wanted you to think that they were being transparent
by reporting this way to you. That’s one of the reasons
that I became so interested in this and said, things will
have to change. I was the one who recommended that an
independent audit of the House be done. The first one was
done by Price Waterhouse in 1994. And we now know that
they couldn’t do a “clean” audit in the House, until the
books were straightened out a couple of years later.

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

MALE SPEAKER: Forty-five days.

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

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

I could go on and on, but you want to have lunch.

About some questions, I’d be happy to answer your
questions. You have my book, you have my written
testimony, and you have my business card with information
on where to reach me after this hearing.

MR. ALLEN: Actually, that’s great. We do want to try
and get as many people involved, and we do want to try and
present the financial statements in an understandable
format. So any additional written comments based on your
reading, or after reading the comprehensive financial
report, I’m sure Treasury and all of us will be interested in it.

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

MR. DIOGUARDI: Well, I think you heard it before that you don’t need to have a legal obligation to report a liability. And when there have been so many promises made (and Social Security and Medicare are the big ones), it
just seems to me that these promises can be measured in accounting terms as fixed and determinable, and when you have a liability that is fixed and determinable, you should report it. This is basic accounting. And there’s no question that actuaries can compute this liability. They may have some different approaches to it and some may say, by the way, as Harvey Kapnick did, that you don’t have to put it all on the books immediately. Let’s look at what we’re doing with other pension systems and roll it out, maybe over 30 years, i.e., cut the amount in 30 parts to follow what’s going on in the private sector (and I believe that is what they did with civil service and military pensions). And don’t forget that was 1975, when Kapnick said that, and things may have changed since then.

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

So my feeling is that it is fixed and determinable, even though it’s not a legal liability. Even though the
law does say that if the Social Security fund runs out of money, there’s no obligation to pay it, I daresay it’s not going to be a good answer, because there certainly is a moral commitment to pay. So my feeling is that while the liability for Social Security and Medicare may not be a debt obligation like a Treasury bill, we need to show it as a liability.

And let me, just as an aside, say that it’s incredible to me that in 1983, the Commission that was set up to save Social Security raised the rate of the FICA tax and the tax base. And we accumulated a lot of money. And yet politicians have run around saying, they have reduced our income taxes. What they did is they took the money from the payroll taxes and substituted it for the general fund. And how did they do that? By taking the money out of the Social Security “trust fund” and using it in the general fund of the budget. Not exactly as advertised after we told the public that it’s a trust fund. But now they are saying we’ve reduced your income taxes, but what we really did is increase the taxes on the poorest people in America. The payroll tax is the most regressive tax of all. You could be homeless, work two weeks, pay Social Security, and
you can’t get a refund for that. It’s worse than a sales
tax in terms of being regressive.

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

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

Now, I don’t know that this is described in this
year’s U.S. financial statements anywhere. I didn’t see
it. But believe me, this is a political device that has to
be corrected at some point. That’s why I wrote the book.
I say in my book that Social Security is a shell game, a
“Ponzi scheme” defrauding the next generation. We don’t
need Mr. Madoff to understand what we did with Social
Security.
So, yes, record it as a liability. And if you don’t, I think you do it at your own peril, because people are going to say, well, how come we are hearing about this $53 trillion or $56 trillion liability for Social Security and Medicare, and it’s not on the books of the United States?

MR. ALLEN: Nancy?

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

MR. DIOGUARDI: Yes.

MS. FLEETWOOD: But you also added, which I thought was sort of fascinating, the idea, you commented on the fact that we talked about doing the debt, and you thought that would be really good. But you also said, and you mentioned it again today, and I was just curious about this, about us doing something even further in comparison on key indicators with other countries. I wondered if you could just expand on that a little bit. Because that wasn’t something that we presented in there, and it’s something that I think was very interesting that you talked about.
MR. DIOGUARDI: That’s why I was surprised that the economists who testified earlier were not thinking about this in global terms. We’re in a global economy. And it’s obvious from what’s going on right now that whatever started here in the United States has affected the rest of the world. So we are global. And we owe a couple of trillion dollars to China and Japan right now. And I think that we’re going to have to continue to borrow from them, at least in the short run.

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

So it seems to me that we need to start thinking about the bigger picture. Are we going to be globally competitive in the future? What are the financial things that we need to see now that point the way to the fact that we will be globally competitive or will not be globally competitive? That’s what I was thinking about. And I
mentioned defense, because that’s such a large part of our budget, and a lot of it is being spent abroad, and this country bears an inordinate share of that expense for the free world.

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

MS. FLEETWOOD: I think one of the other speakers mentioned, just in passing, medical expenses. What is our percentage of spending on medical expenses compared to
other countries? I was thinking that might be another key indicator.

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

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

For the average person, you’re going to need to come up with a one-pager. It may break your heart to do it, but I don’t think they’re going to ever read anything that has
more than a couple of pages, and it has to be in a format they understand. That’s why I came up with a credit card statement, because I figured that would be the only thing that most people would understand. But I don’t have a monopoly on ideas. You have great people on this board, and I think that you have to start thinking about how can we get this information to all constituencies, as I mentioned at the beginning of my testimony here today. You have to be very sophisticated financially to understand the U.S. financial statements the way they are presented today. I had to take a lot of time to read them. I learned a lot, by the way, yesterday, doing that. Very informative!

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

And the Treasury, they have a big responsibility. The CFO, in my bill, was not supposed to be part of the Treasury, as I said. It was supposed to be a completely independent office. And when I saw the final compromise made to pass the bill, I wrote an editorial in The
Washington Post in 1990 saying that we had now put the fox
in the hen house. And that was basically what we did,
because now the CFO is a captive of the political process.

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

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

Remember “Gramm-Rudman”? The law was passed when I
came to the House in 1985. It was supposed to be a
mechanism that would take the deficit and reduce it to zero
over four years. Well, by the time they got to third year,
they realized that it wasn’t going to happen, so they
extended it to five years. By the time the fourth year
came, they realized that they couldn’t do it, and so they
went to six. Then they realized that they couldn’t do it
at all, and Gramm-Rudman was eliminated.

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

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

MR. ALLEN: Thank you very much. We appreciate that.
We will reconvene at 1:00 o’clock.

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

See note on page 162 regarding edits to this text.
AFTERNOON SESSION

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

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

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

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

The [indiscernible] financial statement can only be productive if there are categories other than social insurance programs. The social insurance programs are the only things itemized on the statement [indiscernible] budget to the current [indiscernible] statement. Readers will be interested in other [indiscernible] categories such as defense, the environment and education. Combining all other programs [indiscernible]. This really does not go beyond the already [indiscernible] time projections of receipt and obligations for Social Security and Medicaid.
(?) [indiscernible] as assessing [indiscernible]
budgetary resources will likely be subjected to sustained
public services and to meet obligations as they come due is
important. It is [indiscernible] misleading to illustrate
only [indiscernible] and not cover public services citizens
expect [indiscernible]. For comparative purposes, we
believe that a fiscal sustainability report should be
[indiscernible] not to exceed 75 years. The time line of
the statement should complement the statement of social
insurance [indiscernible] year projections. If the hope is
that this new statement will incite action, it should not
be illustrated with an infinite horizon. [indiscernible]
believe that the infinite horizon is irrelevant and not
realistic to project the entire Federal Government. The
exposure draft is very brief on the issue of current and
future participants. We feel strongly that any
sustainability report should use the same population
[indiscernible] for such reporting. If the board
[indiscernible] statement we believe high level disclosures
are better, such as those included in the summary parts.
[indiscernible] challenges(?) projections [indiscernible]
alternative illustrations would be beneficial. However, if
too many alternatives are provided, projections would
reduce the credibility of the statement.

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

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

There are a few points in the exposure drafts that seem outside the scope of the financial statements [indiscernible]. We believe that it would be interesting to present a schedule showing trends in U.S. Treasury debt
held by foreign investors. This information would show the behavior [indiscernible] impact foreign countries could have on the economy. However, this is not a direct correlation to fiscal sustainability in the discussion parts of the statement.

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

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

However, with all this said, the board has already acknowledged that much of this information is
already available and is it really prudent to expend more
resources if this information is in fact already available?

I’m going to move on to accounting for social
insurance.

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

MS. VETTER: Sure, absolutely.

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

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

MS. VETTER: No.

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

MS. VETTER: No.

MR. STEINBERG: -- a longer implementation
period?

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

MR. STEINBERG: So if we’re going to make it
basic, have a longer implementation period?
MS. VETTER: Yes.

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

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

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

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

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

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

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

MR. JACKSON: I had asked a question of David
Walker earlier, and I do recall his response, but I get
back to being able to audit or determining the
reasonableness of the assumptions. On the one hand, going
out 75 years is one thing. But I begin to struggle, I
actually really began to struggle with determining the
reasonableness of assumptions when we go out for things
like an infinite period. And putting aside the cost issues
and stuff like that, how comfortable does the Inspector General’s office feel with, albeit maybe you are not, well, maybe you are, dealing with the reasonableness in assumptions over an infinite period of time?

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

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

MS. VETTER: Um-hmm [affirmative].

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

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

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

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

MR. JACKSON: Which is not much of an opinion, is it?
MS. VETTER: No.

MR. JACKSON: I’m just, I’m being my typical self. Thank you.

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

MS. VETTER: Yes.

MR. SCHUMACHER: Given the Government?

MS. VETTER: Yes.

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

MS. VETTER: Defense Department.

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

MS. VETTER: Correct.

MR. SCHUMACHER: So that’s just an observation.

MR. JACKSON: So you’ve answered my question.

MR. SCHUMACHER: Glad I could help.

[Laughter.]

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

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

Currently, the statement of social insurance has both the closed and open groups in user-friendly terms. These terms, current and future participants with the age ranges of the different group are on the base of the
statement. The proposed new [indiscernible] just move things around appears that these are not quite clear.

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

However, if the board pursues a new statement, this should not be exclusive to the closed group. The open group is the basis of measurement for social insurance sustainability analysis, and the changes in social insurance for the Medicare and Social Security trustees reports. If we begin to report on a different group, it could cause significant confusion among readers. [indiscernible] only reporting on the closed group seems that the program is closed to future participants and contradicts the [indiscernible] financing principles currently in place.

With respect to reporting on the accrued benefit obligations in the [indiscernible] statement, I do not
understand how this number will enhance the reader’s comprehension of the Government’s social insurance obligations. Further, as stated before, focusing on the closed group is counter-productive [indiscernible] the information already published on the social insurance program. In my office we have read this paragraph on the accrued benefit obligations several times and are struggling to understand the meaning and value of the number. If the board is going to pursue this number, care needs to be taken to clearly define how the number should be calculated and the usefulness of the number and what narrative should be around the number.

With respect to the open group versus the closed group, the board of trustees report [indiscernible] focuses on the open group pay as you go concept. Introducing a new presentation will make this statement more complex for individuals to understand and compare. Based for the financing of the trust funds, it seems logical to present the information consistently based on the open group. More specifically, taxes from future participants will be used to pay for benefits to current participants. It measures the extent to which future scheduled taxes will be sufficient to pay future scheduled benefits. If you
exclude the open group for reporting purposes, it could
cause unwarranted harm and concern from individuals that do
not fully understand the context of the statement and the
groups of people included or excluded.

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

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

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

MR. ALLEN: I guess my point was that, and the statement, because I looked at mine several months ago, but
it does say the same thing, starting in the year 2041. My point was, or my question is, this is, I thought it was real money, but I was told by an economist there’s no such thing as real money. We just make entries and it all balances out, I guess.

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

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

MR. ALLEN: Well, I guess that was my, I thought
that was the crisis here, but you in your comments and
actually [indiscernible] Steve did, my statement does, it’s
almost as if there isn’t any concern in 2041.

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

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

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

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

MS. VETTER: Correct.

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

MS. VETTER: Well, as you have it illustrated, it
has the social programs and then has other. And that’s all
it, in your current illustration, that’s all it shows.
MR. PATTON: I see. Okay.

MR. ALLEN: Other questions?

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

MS. VETTER: Well, there’s already quite a few different alternatives in the current RSI. And the MDNA is, as we have it, is more of a high level, this is [indiscernible] information, this is what we do, this is our business, this is where we’d like to be. In the RSI, we get into some of those more technical projections and alternatives and things like that. We try to keep the MDNA in a user-friendly reader format. And I don’t know, if you introduce those kinds of things to the [indiscernible] people might get lost and not continue on.

MR. ALLEN: All right. We appreciate it. Other comments or questions?

If not, we appreciate having the opportunity to hear from you and again, I’m hoping you will be available if we have additional written comments. Thank you very
much.

MR. MAZUR: Mr. Chairman, as I indicated before, I ask permission to have my worthy colleague, Eric Berman, who will be following my comments immediately, and I also wanted to have Anna Miller come to the table, because I would like to face her in front of all of you. She is the one who worked with the three of us to have us [indiscernible] our thoughts and if she’ll come and [indiscernible].

Mr. Chairman, my name is Ed Mazur, and I’m here today to speak to you and your fellow board members on behalf of the financial [indiscernible] Board of the ATA. As you recall, we issued a letter of formal comment on February 10th and I am here to summarize our major conclusions and recommendations and also perhaps to add a little perspective.

MR. ALLEN: Before you start, can we have sort of the same focus, the sustainability focus, and then to the extent we can --

MR. MAZUR: We’re going to do social insurance first.

MR. ALLEN: Okay.

MR. MAZUR: Because that’s my half hour, so to
speak.

MR. ALLEN: Okay.

[Laughter.]

MR. MAZUR: If you ask a hard question and I can’t answer, I’ll turn it over to you.

MS. MILLER: Okay.

MR. Berman: But more importantly, Ed’s become a grandfather.

MR. MAZUR: An hour ago.

[Applause.]

MR. MAZUR: Get out your checkbook.

[Laughter.]

MR. MAZUR: [indiscernible] subsidy.

MR. ALLEN: He just provided for his social insurance.

[Laughter.]

MR. MAZUR: I have displaced priorities by being here rather than sitting in the waiting room. But --

MR. JACKSON: We’ll mention it to her when we get a chance.

[Laughter.]

MR. MAZUR: Our group really appreciates your efforts to continually go at this question of social
insurance [indiscernible]. However, I think it’s our view
that I’m going to express to you today that the time for
continued gradualism, and please don’t take that as a harsh
criticism, but we sort of think the current ED shows some
of that, in establishing effective reporting for social
insurance costs is past. In fact, the day when any of us
could take comfort in thinking about the fiscal health of
this Country as a long-term consideration, that has clearly
also passed. Tomorrow is today. In fact, for some of us,
tomorrow was yesterday.

So we believe therefore that the changes in the
reporting for social insurance that you now are
contemplating really need to reflect the realities of today
and go as far as you possibly can to setting the record
straight as to the conditions and circumstances relating to
our social insurance programs.

I do want to note quickly that it was
[indiscernible] great deal in our ED that our board found
that there were good, solid, additional proposed, or
modified requirements. It does include requiring the
social insurance component entities and the Government-wide
entity to reflect discussion of a few measures in the MDNA.
Excellent idea. The addition of a new summary section of
the statement of social insurance to present closed and
open group measures, that was your question three. The
addition of the new basic financial statement entitled
Statement of Changes in Social Insurance, that was your
question four, we think that’s an excellent idea.

The disclosure of the accrued benefit obligation
in the notes, question five, we agree with that. The
emphasis on the closed group population relative to any
reporting within the basic statements we think is
appropriate, question seven. And finally, with question
eight, your intention to allow additional flexibility in
the [indiscernible].

For the remainder of my comments, what I’d like
to do really is focus on the concerns and recommendations
of our group relating to questions three and six. As a
general [indiscernible] our group believes that neither the
board nor ultimately the policy-makers can have it both
ways. Today the consolidated basic statements of the U.S.,
and here I mean the balance sheet and the statement of
costs, do not reflect the obligation of the U.S. Government
to recipients currently receiving social insurance
benefits, much less to those who are qualified by
completing 40 quarters of payments into the trust fund.
Yet the annual statements of social insurance administration to individual participants used such words as the following: your benefit will be based on our record of your lifetime earnings; we’re more than a retirement program; social insurance is the largest source of income for most elderly Americans today; social insurance is a compact between the generations; in 2017 we will begin paying more benefits than we collect in taxes. And later it says by 2041, which is in reference to earlier today, the Social Security trust fund will be exhausted and there will be enough money to pay only 78 cents of each dollar [indiscernible].

Now, while serving as a member of this august body, back when Hal and I had darker hair, I sided with the argument that Social Security and Medicare were simply tax vehicles subject to change by Congress and therefore, could not be construed or constructed as a liability of the Government. However, I no longer hold that view, for reasons that I now share with the members of the group that I’m here speaking for.

The related concerns and recommendations of our group have, are significantly elaborated in our February 10th letter, which mostly [indiscernible] look at. But
they’re also informed by, I think, the following four observations as to [indiscernible]. The first is that the expansion of social insurance programs within the past eight years, there has been significant expansion and also significant growth, therefore projected obligations. There has been an absence of any concrete steps by policy-makers to provide additional long-term funding mechanisms for social insurance programs. The absence within the consolidated statements of a clear, unequivocal statement that social insurance does not constitute a liability, nor should any individuals citizens expect the articulated promises to be withheld, that’s not there.

And finally, the current reliance of the Medicare trust fund and the conversation of a special category of Treasury securities into cash at a time of significant volatility within the market for publicly-held treasuries. I’ve noted that a number of the folks who preceded me to this table seem to take comfort in the fact that there is a trust fund and the trust fund has a balance. There’s no balance. There’s no thing there. And in order to backfill it, as we now have to do for Medicare and will in 2017 have to do again for Social Security, the Government’s either going to have to raise income, short other expenditures, or
borrow more. So there’s no comfort associated with that in our view.

So in consideration of these readily observable environmental factors, and with great consideration given to the pro and con statements which were, I think, excellently presented by all of you in the ED, our group asserts that any further obfuscation within the consolidated financial statements of the U.S. Government as to either the existence of or the lack thereof of a financial liability associated with at least some portion of social insurance would seem to be without justification today and a disservice to the concept of transparency.

As noted in our formal letter, those opinions within FASAB that would hold that some level of financial liability exists and should be reported on the balance sheet and reflected within the statement of net costs appear to be most in line with previously issued standards of the board in your concept statements. The opinions within the board that run to the contrary seem, in our view, to not abide by either the established notions of the board or governmental accounting theory. As the board works to identify an appropriate theoretical underpinning for its ultimate position on the liability issue, we
recommend for your consideration GSAB concept statement number five, elements of financial statements, as a possible, as possibly being helpful to the board in establishing a conceptual basis for when selected [indiscernible] non-exchange transactions can be associated with the recording and reporting of liabilities.

This statement, I have a copy here, opens the door during future standard-setting for GASB to segregating non-exchange transactions between those associated with either temporary benefits, such as unemployment benefits, or non-permanent populations, such as school-age children, for benefits intended to be permanent until end of life and for a fixed population. An example might be Medicaid patients who are medically disabled and without financial resources.

A similar logic may be appropriate to Social Security and Medicare beneficiaries who are fully qualified and permanently enrolled, and would permit the board to more comfortably reach the conclusion that a reportable liability exists. With these considerations in mind, we encourage the board to issue a revised statement requiring the reporting of a liability on the balance sheet associated with at least those citizens currently receiving
social insurance. Further, we urge you to develop a
complementary mechanism for the reporting within the
statement of net costs. Going forward, the impact with
modifications to that liability and the amortization
perhaps over a maximum of 30 years of past, accumulated and
unfunded liabilities associated with current recipients.

Conversely, if the board should be disinclined to
set such a requirement, we then recommend that it be made
clear and mandatory for the preparers of the Federal
consolidated annual financial report and the annual
financial reports of the social insurance agencies to
report within MDNA and within notes to the balance sheet
and to the statement of net costs the following
information: the specific nature and limitations of the
authorizing legislation of social insurance programs; the
absence of purposeful advance funding of future costs of
programs and the present value of that funding obligation
for the closed group, assuming no change in law; three, a
statement clearly contrasting the basis of accounting for
Federal social insurance programs, with the accounting for
pension and OPED costs and liabilities of State and local
governments; four, the likelihood that these programs will
be reduced in future years due to the absence in funding;
five, the mechanisms built into the law that will require a formal reduction in Social Security and Medicare funding and benefits when certain circumstances occur; and finally, estimates of the year in which funding and benefits will be reduced for individuals currently receiving benefits under the program.

Mr. Chairman, I would now be pleased to take any questions you and your colleagues have.

MR. ALLEN: We’ll open it up to questions.

MR. WERFEL: I’ll get us started. I think the theme I want to play up is one which was brought up earlier, which is very important, I think, to me and to the board, that is, making sure that as standard-setters we don’t lead to a certain policy that, as we set standards, we have to make sure that the presentation of information is objective and not pushing a particular agenda. And one of the concerns that I think the board has grappled with in the area of social insurance is whether by, is this question. Once you go beyond and exchange transaction, as it’s defined today, and decide that you’re going to build a liability beyond that, or incur liability beyond that, what are the appropriate parameters by which to set the limits of what you’re going to count as a liability?
So clearly, there’s something special about Social Security and Medicare that we have, that means that that’s somewhere to potentially build that plan around. But what is it about Social Security and Medicare that makes it special? It’s not just that it’s funded out of payroll, because significant parts of Medicare are not out of payroll taxes, because significant parts of Medicare are not. It’s not that the Government sends them some kind of benefit statement to keep their customer satisfaction ratings high, because that is clearly only a Social Security thing, not a Medicare thing.

One of the previous speakers talked about there being a moral exchange rather than a financial exchange. And my challenge is, and what I’d like you to comment on is, I think it’s difficult for this board to figure out where that moral line is drawn and highlight something as a liability versus other. So there are other entitlement programs. Do we have a moral obligation that people should expect food stamps in future years? Do we have a moral obligation to provide for national defense? How do we figure out where to draw that line?

And I’ll finish my question by tying it back to the mere disclosure on the balance sheet of this extra line
of social insurance, even though it’s not incurred as a liability, by placing it on the balance sheet, are we not again highlighting a policy implication by doing that, by giving a special status to these types of payments versus others? So if the ship is sinking, throw the food stamp benefits off first, save the Medicare and Social Security? Are we setting that type of tone and how do we prevent from doing this?

MR. MAZUR: Well, it’s a wonderful set of questions, really, and I think perhaps I may be able to offer a response. First of all, as to should standard-setting set policy or force policy, as a member of GASB, together with my colleagues, and I think Bob is still here, chairman of GASB, we had to face that when we came out with the OPEC standard. And there were a lot of people who fought that notion. But yet we said, and repeatedly said, we’re not telling you to fund it, we’re just telling you to account for it properly. So if you were to add liability, I think along the lines that we’ve suggested too, balance sheet and statement of costs, you’re not telling anyone they have to fund it, and they certainly have not funded it. But you are perhaps accounting for it in a more effective way.
I would commend to you your own ED as far as that other part of the question and our summary of it, in our long letter of February 10th, because to me you make a strong case in there for why Social Security and Medicare benefits, or some group, are different. And I mentioned to you concept statement number four, I think I said five, forgive me, it’s four, elements of financial statements. And the GASB goes to great pains to segregate out in good language that you might find very helpful the difference between political commitments and commitments to education and commitments to short-term benefits. I tried just now in my statement, and I’ll make sure staff gets a copy of it, to segregate what appeals to me as a former standard-setter, and perhaps the answer to where we might go with this, and that is that there are non-exchange transactions that relate to temporary benefits and temporary groups, non-permanent groups. And I think they don’t have to have a liability on the statements.

But when people are part of something that is to be permanent, they’re a fixed population and the commitment has been voiced to them over a long period of time, I think you can then argue amongst yourselves and establish in your basis of conclusions a case for why you can see this as a
liability.

I think that, well, as somebody mentioned, a new
grandchild. That child will grow up in a household, I
assure you, as did my children, knowing full well that they
are solely responsible for taking care of themselves in
their older age and for taking care of their health
coverage. They will understand that, because through their
grandfathers and other things.

MR. JACKSON: You’re not going to subsidize them,
is that what you’re saying?

[Laughter.]

MR. MAZUR: A lot of folks don’t get that message
today. A lot of folks don’t get that message. And it will
be when, and here I’m going off the mark here, but I think
it will be when more of our citizens understand that they
have a higher level of responsibility for their own
welfare. And if putting things with solid justification
where they belong in the financial statements helps policy-
makers and citizens and the users of these statements, to
make better judgments, then I think that that is more than
justified. I hope that answers it. I tried.

MR. STEINBERG: Let me put the question another
way. Because you had said that you felt the people that
hold the alternative view it does not abide with accounting
theory, I expect you can appreciate that before you apply
accounting theory you look at the nature of the programs,
the nature of the transactions and so forth. The Federal
Government has a number of programs that they call social
insurance programs. Those are the programs that they
established to replace income lost because of retirement,
because of disability, because of unemployment, which
evidently the States, as you just said, look at
differently, because of debt, to help out, because of
illness or injury.

This is only one type of many programs the
Federal Government has. We provide national defense, we
protect intellectual property, we provide for interstate
commerce. And as David Walker said this morning, all of
those are in the Constitution. The social insurance
programs are not in the Constitution.

Some of these programs are supported by general
tax revenues. Medicare Part B, Part D, is tax revenues.
It’s no contribution added, it’s not an exchange
transaction. These programs are not the only programs for
which we put monies aside in trust funds. We have the
Highway Trust Fund, we have the Airport and Airway
Improvement Trust Fund, we have the Superfund Trust Fund
and so forth.

The annual notice that you held up before also
says in there that the payment’s limited to what’s in the
trust fund. And I’ll take it a step further. Most younger
people feel that they are not going to receive the benefits
when they get old. So if the role of accounting principles
is not to reflect public deceptions but to, particularly
decisions that are mistaken, but it’s to really rectify
misconceptions, that’s what we talked about, transparency
and truth in accounting, could you consider that perhaps
the social insurance programs could be accounted for and
reported differently than all these other Government
programs?

MR. MAZUR: Yes. And as to the first line in
your question, that certainly was to point out that having
this below the line reflection was difficult to find the
basis for in your standards or your concepts. Hal, I think
you’ve laid out the dilemma, and it’s the dilemma before
this board, and good minds and reasonable minds can make
different conclusions. I think that you have, however you
want to define it, you have a public pension arrangement, a
public OPED arrangement here. And all of the
pronouncements, which is why I did raise this, the
assurances and so forth, if you ask people, did they rely
on these promises, yes, they did. Social Security knows
that to be the case.

There’s something more here than just the promise
of providing temporary benefits to often a temporary
population. These are permanent, end of life arrangements.
And what we said in our paper and then now during the
[indiscernible] here is go one way or the other. But don’t
continue where you are. If you decide as a majority you
don’t want to think of it as a liability, though I firmly
believe you can structure a basis for that, or a majority
of you can, if you don’t, then strip out from your
requirements that which today confuses so many readers of
these statements.

MR. STEINBERG: So if I understand what you’re
saying is if we, a majority of the board, or unfortunately,
if it’s split, then we stay with what we have, if we don’t’
believe that this is a pension or OPED program, which
really it’s not, a pension, you get a pension from me
because you worked for me. Social Security, you didn’t
work for the Government, you are getting Social Security,
you’re getting Medicare because as I said earlier, the
Government has decided to replace income lost to debt, retirement, or to help out in case you’re sick.

So what I hear you saying is, if the conclusion is that these are not pension [indiscernible] programs, then you wouldn’t put that extra bottom line on the balance sheet [indiscernible].

MR. MAZUR: I wouldn’t put it there, no. But we did have in our letter that you should have a note, you could put a note to and even on the face, a note explaining more than what you have.

MR. STEINBERG: Well, the notes are to the financial statement. We don’t have notes in the individual statement. And I think it’s already in the notes.

MR. MAZUR: Well, but again, if you go that way, you will leave people, I think, in the same position they are with every right to be terribly confused about the nature of this obligation of the Government to [indiscernible] the population.

MR. ALLEN: I have a bunch of people, Jim and then Nancy, but I would just point out, you mentioned a number of notes that we should have, add to our financial statement. We do have a note, one, under basis of accounting, that says we do not account for social
insurance under an accrual basis. So if you go back and read that --

MR. MAZUR: Yes.

MR. ALLEN: -- you will come up with [indiscernible].

MR. MAZUR: You do today. But in all other, in so many respects, not all, in so many other respects, the Government is presenting to these people who are out there relying on our promises and good intentions in a confusing manner. I mean, 99 out of 100 people, average folks on the street, are going to view it as public pension policy, regardless of the way the law is structured.

MR. ALLEN: Okay, Nancy, then Jim and Jeannette and then [indiscernible]. Then we lose our time.

MS. FLEETWOOD: My question was just that when you said if we don’t see it as a liability, we don’t see, at least the way I understood what you’re saying, you don’t like it on the balance sheet, you don’t think it’ appropriate as a one line thing on the balance sheet. So I guess a further question, you had mentioned putting it in as a note. I guess I wondered if there was a middle ground, if people don’t see it as a liability but consider it significant information that needs to be disclosed and
then perhaps more prominence than a note would be
appropriate. Did you consider anything in between that, or
is it like it’s on or it’s off? I guess I wondered if you
considered some other kind of statement that highlights it
better.

MR. MAZUR: I’ll ask Eric if he wants to weigh in
here, but in the very beginning of my remarks, I said it’s
no longer time for gradualism. I think you have to sort of
fish or cut bait, as my dad used to say. You either call
it, that it isn’t a liability at all and you scream that
out in your financial statements and you make sure every
American, at least in terms of what is reported,
understands that it’s nothing but a tax collection effort,
period, and that there is nothing there to tax that on.
There is no commitment to individuals to support those
programs. Financially, in class financial terms.

Or you construct a basis for recognizing that at
least for those people who are part of the program now who
made their minds up as to how they would lead their future
lives after a certain point that there is an obligation to
at least those folks, which we recommend that there is.

MS. FLEETWOOD: But the [indiscernible] spot you
see it as changing liabilities on a balance sheet? You
don’t see anything in between? It’s either change the
liabilities on the balance sheet [indiscernible] --

MR. MAZUR: Well, your statement of social
insurance right now, and then particularly as you will
propose modifying it here, is full of information, is it
not? I mean, it’s not that you can’t, it’s not that a
thoughtful person cannot read the statements without your
changes and understand the significance of wow, there’s a
big commitment out there. It’s just that in terms of the
forthrightness with which the accounting and reporting is
situated in this report, does it really tell clearly again,
either that there is an obligation or there isn’t. And
that’s, I think, where we today have this trouble. We
think it’s too suggestive that oh, you’re going to get it
but you’re really not going to get it. Which is it?
You’ve got to decide.

MR. ALLEN: Were you next, or Hal?
MR. SCHUMACHER: I believe I am, but I am going
to involve Hal in this. I think Hal’s summary, Mr. Mazur’s
position earlier was not exactly correct. Because you
framed any liability that might be on the balance sheet for
the social insurance in terms of an OPEB or pension. And I
don’t think there’s any claim in the, at least in my view,
of what the liability would be, that it is a pension or --

MR. STEINBERG: It’s a term he used. I didn’t use it. He said OPEB and pension.

MR. MAZUR: The public perception is that it’s a public pension.

MR. SCHUMACHER: Okay, but I think, okay, then I would still put that on the record, that those, at least this person who would put it on the balance sheet as a liability does not see it as a pension or an OPEB.

MR. STEINBERG: It’s not. Neither do I.

MR. SCHUMACHER: Okay. The second thing I would say to buttress Mr. Mazur’s response to what Danny suggested earlier is, is there a line and on page 4 of letter 19, which is page 107 of 114 pages it says [indiscernible] paragraph A(19) of the exposure draft, which says basically it’s a liability because the condition for receiving the benefits are substantially met when the participants are fully insured. So I think that was the line that would distinguish this from other things. And to the extent that food stamp programs also met that criterion, I would extend the logic to them. It doesn’t extend, I think, to defense, providing defense. Because it’s a different kind of program.
So although I would say I don’t think you have to go as far as food stamps. In my comments, and again, I think if you take and read multiple times what’s in this elements statement, you could see that through logic you can create a smaller population to which you can associate certain liabilities for non-exchange and such. Because I’m very used to the argument that was posed, which is, gee, if we open a tent for this one, you let everything else in.

And in all my writings on this subject, as some in this audience might be able to testify, I have tried passionately to say no. You do not need to open it, you don’t need to say, 12 years of education is suddenly a liability, or you don’t need to say defense is. You’re talking about people, a fixed group of people at the end of their lives who qualified for a program and have relied upon it. It’s a different question altogether, I think. Or you can make it so in your standards.

MR. SCHUMACHER: I appreciate that clarification.

MR. ALLEN: My brain’s telling me that I promised Jeannette and then Hall. Go ahead.

MS. FRANZEL: It seems like we have a big public perception problem out there. We also have a public policy dilemma and we also don’t want to sort of adjudicate these
things through the accounting standards. I think that’s the principle that we’ve been discussing here. We don’t want to sort of decide public policy through the accounting standards.

So if we have a perception problem out there, and therefore we want to make the accounting standards closer to the perception, I think we’re making a public policy decision there. If we decide that we should record a liability, at least for the people already in the program, I think we’re making a public policy decision there by saying, those people who are collecting now, they’re going to get what they’ve been promised and everybody else is on their own.

I think this fixed group of people, we could make that argument with the school lunch program. You’ve got a fixed group of kids at the beginning of their lives, they need the school lunch program. So I think we really start by going down a difficult path here. But I think that the problems surrounding these social programs are so huge that we’re getting drawn into those problems. And that’s just a comment, I don’t know if you want to respond to it, but that’s how I’m interpreting what I’m hearing.

MR. MAZUR: Then if you really strongly feel that
way, I believe, we believe that you have to clarify far
more than you do today in these statements that there is no
liability. There is, say it, say it, put it in writing and
put it out there. Are you going to be creating policy?
No. I think by the concerns you have that you’re not.

[Simultaneous conversations, laughter.]

MR. MAZUR: Tell the American people that there
is no liability, that a trust fund isn’t really a trust
fund, et cetera.

MS. FRANZEL: I think that’s the legally correct
answer. What else do we have to stand on until some of
these decisions get made?

MR. JACKSON: If you say it at the next election
[indiscernible].

MR. STEINBERG: To change it just a little bit,
David Walker and others this morning have said basically
throw out the balance sheet. And you’re suggesting putting
more information on the balance sheet. I’m wondering if
you can reconcile those two positions.

MR. MAZUR: Well, I think it’s, in our mind it’s
a bit more straightforward in terms of coming up with a
number, at least for that constrained group that you
mentioned. To put it on the balance sheet, I think it’s
more technically problematic as to how you would reflect
going forward, which is what we suggest, some contribution
of cost in the statement of net costs. I don’t have a
fully developed recommendation in that regard. I would be
glad to try to write more about that later on.

MR. ALLEN: Woody, before I turn it over to you,
one of our staff brings me this marvelous document. It was
the original statement from Social Security, sent to
everyone when the law was passed. And we’ll make copies
and share that. We talked about being candid, we’ve talked
about all those things.

It is interesting, because [indiscernible] to
see, okay, the communication wasn’t that there was an
exchange or not, because we talk about whether it’s an
exchange transaction or whether it’s not, I mean, clearly
it says, you will have had to work at least five years and
earn a certain amount of money. The checks will come to
you as a right. You will get them regardless of the amount
of property or income you have.

MR. STEINBERG: The lawyers didn’t look at that.

[Laughter.]

MR. ALLEN: I imagine they did, because this was
the original statement sent to all citizens. So to me,
that is, when you talk about parameters of what is
different, there is no other Federal program that makes
that statement. So that is what you mean [indiscernible].

MR. MAZUR: That language continues in spirit and
in substance today.

MR. ALLEN: But when you talk about the intent of
the law originally, it was to set that out as a program
unique from any other Federal program.

Woody, go ahead.

MR. JACKSON: I just have maybe a couple of
questions. One, do we know how Canada accounts for their
health care program? Do they view the health care program
of the Canadian government a liability? I’m just picking
the health care program, because we’re talking about
Medicare. But I look at their health care program as being
much broader, and the people, they’ve got a right to that
program, let’s just say.

MR. MAZUR: I personally do not, but I can refer
staff to what I think many of us heard last Thursday or
Friday, and I know someone got up, and I can’t remember who
it was, and talked for a few minutes at the AGA National
Agent conference about how other governments, national
governments --
[Simultaneous conversations.]

MR. JACKSON: Right. I think there’s some
uniqueness. I don’t think other governments count this
stuff [indiscernible].

MR. MAZUR: It caught my ear that there was
something perhaps to look at.

MR. JACKSON: Right. And the only reason I bring
that up, we talked about this before, but I don’t believe,
I was doing some work elsewhere last year, I think it’s
when I went on my little trip to China and we did some
research on the international standards and so forth,
government standards. I don’t think there was any
liability recognition going on with regard to this. But
then, I asked that question, because it just dawned on me
when we were focusing on Medicare.

And I wanted to ask another question, actually,
just sort of a continuation. I’ve caught on to Tom’s
trick. So every time I have a question, it’s abbreviated
by a semicolon, not a period.

[Laughter.]

MR. ALLEN: David Walker mentioned earlier today
that his view was that he wanted to recognize a liability
or deferred revenue for those bonds that were, the special
bonds. And I forget how many trillion dollars there are. But what we’ve got is a situation where we’ve recognized revenue that really is money that should have been set aside. And I don’t mean that in the case of dollars set aside, or separately invested. For the program, for the program. And he characterized this very carefully this morning when he said, these benefits, he wants to recognize the liability or deferred revenue for all those Treasury securities being held on behalf of Social Security, and he mentioned this program as, that these monies are not for me or for the individual, but they are promises that there are monies that have been collected for the benefit of the program, and they should not have been used for defense or something else, when you get right down to it.

And therefore, he would push for the recognition of that debt in some fashion on the face of the balance sheet, which in a way would be a surrogate. It’s not a surrogate for the total, for a liability, if you will, for the earned benefits. But, so I would like to sort of get your reaction to that. If you noticed the way, though, he characterized, you weren’t here at the time, I don’t think --

MR. MAZUR: I’m familiar with the
MR. JACKSON: But he characterized, the collections are for the program and the dedicated collection for the program, much like the Highway Trust Fund, arguably, earmarked, and not for, and it doesn’t entitle me specifically to a benefit.

Mr. MAZUR: I understand. Well, and these are just my personal reflections, because the group did not deal specifically with that question. But I find that an appealing notion, and I would encourage the board to take it under serious consideration. Because as [indiscernible] earlier mentioned, you can’t see on the financial statements its intergovernmental liability and asset. And small irony, Woody, is that, remember our previous President wanted to privatize at least some portion of Social Security, right? And --

MR. JACKSON: I’m glad he didn’t invest it in the stock market.

MR. MAZUR: Well, you know, but let me say something. Had all, had those $3 trillion or $4 trillion been invested in the stock market, and the stock market has lost 45 percent of its value, at least you would have, in theory, 55 percent sitting there in cash. Today, all you
have is a piece of paper in West Virginia that says, IOU.

So I think you should give some consideration to that.

MR. JACKSON: My thought is, though, I was, I found appealing, given all the debate, I found appealing his comment, it just resonated with me, let me put it that way, it resonated with me the notion that the payments into the system by the current working force, those payments are commitments to fund the benefits of whomever. And it doesn’t necessarily entitle me to a particular benefit, similar to an OPEB. That was the drift that I got from what was being said.

MR. ALLEN: Thank you, Ed.

Did you notice last night [indiscernible] individual savings accounts?

MR. JACKSON: No, actually, I was at YMCA listening to it, and I was pounding away [indiscernible].

MR. ALLEN: He did say that [indiscernible] individual savings.

MR. JACKSON: He did? Maybe I’d better take a [indiscernible].

MR. BERMAN: Certainly the comment that Ed just said, you know, about the stock market losing money, hit
home. I am going to be one of the few and the proud that is not a member of Social Security, because the Commonwealth of Massachusetts’ pension system was established before 1935, and is therefore grandfathered. So I only pay into Social Security with my Schedule C meager income that I have.

MR. ALLEN: If it’s just a another form of taxing, why don’t you have to pay into Social Security?

MR. BERMAN: I don’t. Our laws were grandfathered in before 1935.

MR. ALLEN: But that has nothing to do with it. It’s just another program, and it’s just another way of collecting taxes. You ought to be paying in.

MR. BERMAN: Given that our pension system lost about 30 some odd percent, and we went from $50 billion in assets down to about 30, 30 and change --

MR. JACKSON: You may wish you weren’t grandfathered in --

[Simultaneous conversations, laughter.]

MR. BERMAN: So in any case, good afternoon to the distinguished members of the board. It’s truly an honor to be here. I’m here to stay the FMSB’s official position and not the Commonwealth of Massachusetts. As a
commonwealth, the Commonwealth of Massachusetts will have no official position on either of the exposure drafts. However, all of us at citizens, all of us are citizens and we may have personal views on the exposure draft language. I’ll be more than happy to state my own personal views on a particular subject, and you will note those views as personal, not of the FMSB or the Commonwealth’s official position.

So why is a deputy state controller speaking today in front of the Federal Accounting Standards Advisory Board? Well, if there’s one thing that the recently-established Partnership for Intergovernmental Management and Accountability has taught us, it is that all levels of government are intertwined. If the Federal Government catches a cold, the States catch the flu and local governments catch pneumonia and taxpayers ultimately hold us responsible. Indeed, we are all responsible for the cold, flu and pneumonia.

Between Ed, David Walker and Ed may say me, there are few people in America who know as much about or speak as much about fiscal sustainability and keep the topic on the front burner, even though our Country is facing profound economic challenges, as outlined last night in the
President’s speech. Those challenges are made even more
daunting because America’s fiscal instability existed long
before our current economic crisis started over a year ago.

The FMSB sent the board a letter on December 23rd,
2008, expressing their overall satisfaction with the fiscal
sustainability exposure draft. This is an extremely
difficult subject to tackle. Indeed, a politician deserves
a profound courage award to disclose that a particular
program just is not affordable. No taxpayer wants to pay
any more taxes than he or she has to.

But the long-term fiscal health of our Country is
a story to tell over and over again, in as many forms and
as many forums as possible. Indeed, I make a lot of
speeches about new accounting statements. But over the
past two or three years, I’ve always spent a portion of the
time talking about our fiscal house of cards. The concerns
are addressed by few of the FMSB board members centered on
a potential bias in the numbers, in a challenge by
macroeconomic theorists of the projections. You heard some
of those this morning. Indeed, any projection or
prediction is inherently flawed, be it a long-term fiscal
projection or tomorrow’s lottery number. But if rules are
established on creation of those projections, the risk of
error becomes that much lower.

Those members suggested a separate report on fiscal sustainability from the consolidated financial report. Therefore, the projections would be separate from financial results, notes and required supplementary information. One thing is for certain: accountants get a bit nervous when they are not looking at tangible reality.

The board asked us to answer 15 questions in the draft. Rather than reiterating each question followed by our answers, some of the highlights of our thoughts include the following. When accountants do projections and transmit them to non-accountants, at the very least, some guidelines need to be disclosed to the receiver. We suggest that these assumptions and guidelines need to be prominently displayed.

We also suggest that if the projections involve a very conservative or very favorable position that those assumptions be disclosed. In the Commonwealth, we do this for our auditors with workers compensation accruals, and Medicaid accruals, which are nothing more than shorter time frame projections. In the Commonwealth’s OPED projections, we corridor ed our health care costs prime rate assumptions in calculated accruals based on that variability.
The second point, disclosure can be a blessing in disguise. On the one hand, the current buzz word is transparency. On the other, too much disclosure and the reader gets lost. Some of my own entity’s advisory board members remarked to me over a year ago that our Commonwealth’s footnotes had gotten laborious and unreadable. This year, we actually cut about eight pages out, even though we had new standard to implement.

For what is proposed, if you look at paragraph 42, in the item disclosing rising costs of health care demographic trends and how those factors have changed and are expected to change over time are probably best described in a narrative rather than potentially repetitive or hard to discern tables. Item B, the historical and projected transfer of projection, for progression of years for at least 20 years before the current fiscal year, and extending to all future years for projection for receipts, spending, deficits and Treasury debt as a share of GDP are the most important facts and trends to be included.

From a personal standpoint, it’s my view that I would suggest looking at the effect of inflation in the numbers going back two years. We look at that, where we take a look at our own tax projections in the Commonwealth.
I thought maybe to include the so-called run-out dates with an area, or a table of each aspect of the long-term fiscal drains to show the reader exactly when the debt service and social insurance will not be paid for out of current funds. In our own Commonwealth, we have a table in the back of our financial reports, we call the budget busters. And it’s a table of 10 different items and programs that have been named everything from higher education to Medicaid and a 10-year trend schedule in anticipation of the variability.

The next point, the FMSB members had a few issues with the fiscal gap disclosure. If anything, the requirements are a bit too flexible, and the related illustrative disclosure is not clear, nor is it understandable, at least in the FMSB’s mind. We suggest that the disclosure should be how much debt is sustainable and what level of debt is appropriate according to economists in a ratio similar to debt to GDP ratio discussed in frequently asked question three.

Then we suggest that the percentage be incremented in 25-year intervals for the life of the projection. We then suggested additional line items stemming to fiscal imbalance. When I describe about how our Commonwealth is doing over a long period of time, we
talk about structural imbalances or structural balances. A simple concept, revenue less spending, other sources and uses. Those sources and uses being primarily issuance and repayment of debt. So the Federal Government can translate those projections to our citizens, per capita amounts are absolutely a must. They need to have it.

As discussed in the basis for conclusions, developing a time horizon is difficult. Just how far into the future is it practical to calculate and predict? We suggest that the board consult with one of the macroeconomists who have spoken today and make a decision. But an arbitrary horizon would be 100 eyras.

But whatever is decided, make it one horizon. More than one, you’ve doubled your data and it’s already cumbersome for the reader to deal with. We suggest that the nomenclature used in titles should not include the word statement or the phrase financial statement. We suggest the phrase, projections for long-term fiscal sustainability. That describes exactly what it is. Financial statement suggests that there’s a balance sheet, a statement of revenues and expenditures and cash flows. All those statements articulated some way one to the other. Projections do none of the sort, nor are they meant to do
the sort.

Alternative scenarios can be overly complex.

What is the reader to glean from these scenarios? We believe that the assumptions in paragraph 42 really suffice.

Another item. We find the frequently asked questions to be very helpful. And yes, they should be adopted and expanded upon by the Treasury. My first reaction to reading them was to see if we can develop some of them for our own financial reports, see if our citizens understand them better. They are in the process of being drafted, with the hope of putting them on our website as soon as possible. So you’ve really provided us a good notion to get started on.

Contrary to what Professor Mosler said this morning, our board believes that question 13 is one of the most important disclosures that can be done. We cannot underestimate the problem that we have in foreign ownership of our debt. It threatens our Country’s economic security. If this recession gets much worse, globally at some point, it’s the feeling of our board that our creditors will ask for their principal back. Some of those creditors are not entirely our friends.
As of November 30th, 2008, we know that $10.7 trillion of debt was outstanding, and a good portion of that was obviously the IOUs, as Ed talked about. And I’m sure you know that of the $6.4 trillion that is left over, nearly half of that was held by countries other than the United States, China, OPEC nations, Iran. This is astounding. It is truly in our national interest to expose this as much as possible, not only to expose it, but to change it through a program of national investment.

The most important war facing us in the future may not be fought with munitions. In my mind, it will be fought with currency.

Making projections may cause policy changes and suggestions in the form of narratives, discussions and analysis. But one thing my boss always warns me to do is stick to the facts in our management’s discussion and analysis. Due to the complexity of the Federal Government and its politics, who shall write the policy alternatives of the fiscal GAAP as part of RSI? Is that OMB? Is that Treasury? Is that GAO or FASAB? Each will have a different perspective, if you think about it. And any one of those perspectives can be divisive to another. Should this proposal become a statement, someone’s going to have
to make that decision. And from my perspective, I’m not sure it will be the board. It could be any number of people.

A couple of thoughts on sustainability to wrap up before I’ll answer your questions. We’ve entered an era of transparency and immediate access to information from our Government. The President has made that clear in his campaign, and he’s affirmed transparency in the ARRA. States will have to start loading data in less than 120 days, and I hope to talk to Danny after this meeting, to show the American people are serious about transparency. We want to do this. But with this information, imagine the decisions that could be made from the sort of disclosure that can be handled, this sort of disclosure, if it was handled in a uniform manner.

How about realistic budgets, including the cost of social insurance, so that we can edge back to fiscal balance? How about a challenge to the U.S. Treasury to embark on a plan to match debt life to asset life, instead of doing this a bit backwards, therefore hampering sustainability? How about a joint committee of Congress on fiscal responsibility comprised of Ways and Means members from both parties? We could build an operational framework
of sustainability for the future.

How about a nationwide discussion building upon the successful intergovernmental partnership already in place between the Federal Government, States and municipalities, all focused on sustainability of Government? We have to do these things and others, or else Government as we know it may only exist to pay for debt service and social insurance programs in my lifetime. To deliver this message, we need to be as clear and concise as possible.

I will spend a few minutes discussing how best to explain intergenerational equity with the least amount of complexity. What a world we have left our children and our grandchildren. My father’s and my grandfather’s generation and generations before them had a code of honor to leave the world a better place. I’m not sure we’re on the same path for my daughter’s generation. Certainly the numbers don’t get us there. As bad as these numbers are today, they will assuredly get worse over the next two years, until we have achieved a sustained recovery or a fundamental change in how the Federal Government generates revenues and fund its programs.

We can’t achieve these goals without portraying
where we are and where we are going in an understandable manner to decision-makers and citizens. What the board has proposed is a bold first step. There will be naysayers, and indeed, the AGA FMSB was absolutely not 100 percent in favor of this statement. But a step needs to be taken.

Therefore, I invite your questions.

MS. WERFEL: Just a quick, trying to reconcile your comments with something in the written statement. You expressed concern about calling this a statement. But then in your written statement, you indicate you supported the recommendation to convert this from RSI to basic after three years. Is one, I guess the question I have is, is one solution to your concern about calling this a statement is to keep it an RSI in perpetuity? Or do you feel like we don't run into that problem by making it a basic statement, as long as we just don't call it a statement?

MR. BERMAN: That's an excellent question, Danny. First of all, the board was a little bit split on this one. The board, it wasn't 50-50, but they were split. Some had the views of leaving it in as a basic financial statement, others, as I said, well, make it either RSI or something even lower than that. And I think that's the nature of our board, is that we have differing levels of Federal, State
and local members, as well as our auditors.

My own personal viewpoint is that unless it articulates to something else in the basic financial statements, that it should be a schedule. A schedule, be it as we have it at the State level, we have a schedule of statistics that is ostensibly required supplementary information, if a government produces a CAFR. Or have it as other supplementary information. Certainly we were fractured on that.

MR. WERFEL: Thank you.

MR. ALLEN: Can I just keep following up on that in terms of earlier commenters, and even some of our board members have indicated, now, this is the most important whatever you call it, financial statement or [indiscernible] information or whatever we have. The challenge that we have, not calling it a financial statement becomes quite a bit one of placement. You can title it something other than a financial statement. But if you’re going to treat it as a basic statement, if you’re going to have somewhere close to the front, because other than MDNA, remember, everything else comes after both the statements and the footnote. So we’re now to page 167 before we’re seeing the schedule that is viewed as the most
important bit of information, to some people. So for that reason, I believe it was very important, that’s part of the argument for calling it a basic statement with a different title.

So I don’t know whether you have thoughts on how you can get it where you want it in a very prominent place and still put it into the schedule, or maybe I’m just giving too much credence to current structure. Maybe there are no standards that say you can’t start with a schedule before your financial statement. I don’t know.

MR. BERMAN: Mr. Chairman, I have a thought in the fact that some governments do performance measure reports and they issue them separately from their financial reports. And a prime example is New York City. It releases a very large performance measure report that’s freely available. And it’s a part of, I think it even started when New York City came out of bankruptcy, or one of the provisions of coming out of bankruptcy was do a very robust performance measure report.

Something, whatever the final form of this schedule or statement comes into being, that could be some form of vehicle, a separate entity that exists outside of the financial reporting framework of the Federal
Government. Since especially if the numbers are not going
to articulate directly to what is on the Federal
Government’s balance sheet or inflows and outflows
statement, especially in that case, if the final intent
that the FASAB releases is to articulate that indeed, I
think then the schedule would become more elevated within
the financial reporting framework of the financial
statements.

MR. ALLEN: In a very un-traditional way, that’s
the link we’ve tried to put in this introductory MDNA
information of highlights. Because that’s really the only
place we link our [indiscernible] together, is in that
highlights section.

MS. FRANZEL: We’ve been here all morning
listening to the comments, and some of these comments deal
with sort of how we take the whole and try to do a
projection but really we’re highlighting just a few
programs in this whole. And we’ve talked about some of the
issues, or people have brought out issues about that, about
the interest and about assuming everything else stays the
same, et cetera.

So I’m intrigued by, you mentioned you have a
section in your report called budget busters?
MR. BERMAN: Right.

MS. FRANZEL: Can you just explain a little bit more about what part of your report that is in, and is it audited, and what kind of criteria do you use to articulate those?

MR. BERMAN: That is in our statutory basis report, which is budgetary based. It’s largely modified cash with the exception of accruals that are made for Federal Government receipts that are received after June 30th for goods and services or activities that happen before June 30th. So it’s statutorily defined.

The budget busters were defined back in 1990 when we had a fiscal crisis back then, at the end of Governor Dukakis’ administration. And they were defined as the things that drive the overall costs of government up that are totally unsustainable. And at that time, as they still are, it’s Medicaid, higher education, pensions, group health insurance costs, and public safety, a number of other things that are in there, that encompass probably about 80 to 85 percent of our budgeted operations, that are within these 8 to 10 programs that are there. And there’s some stuff that swaps in and out on an annual basis, debt service, obviously is in there as well.
And we keep track of those, and we have since 1990 and essentially use trend rates and analyze them as part of our discussion and analysis section. But again, it is part of our statutory report. We replicate it as an other supplementary information schedule in the back of our CAFR, as part of our statistics.

MR. ALLEN: Danny?

MR. WERFEL: You were here during when Professor Galbraith, the professors from Texas and Cambridge, one of their, if I understood them correctly, and I didn’t follow everything, they were implying a couple of different things. They implied that first of all, there was kind of a need to present the sustainability statement as a balance sheet, if we’re going to do it, we should have assets and liabilities next to each other. And they were struggling with the fact that it did not present some of these parameters.

But they also said something about, if I understood correctly, about expressing skepticism that a foreign investor or otherwise could look at this financial statement or look at our financial statements and decide not to purchase the U.S. Treasury. And as they were talking, I was starting to think about State governments,
and where your financial statements are critically important to your bond rating. I’m not that familiar with that process. I’m wondering if you could comment about whether this statement, whether when bond raters are looking at State level financial statements, are they just looking at net position or balance sheets, or are they looking at other related areas, whether they’re budget busters or other things? And if so, is the sustainability statement that we’re considering aligned with that, or is this something that’s likely to be ignored? Because at the end of the day, I think what we’re trying to do is correctly portray the fiscal health of the United States Government. And I’m trying to make a parallel here to how someone might view a set of State government financial statements to make that assessment to what we’re doing.

MR. BERMAN: Sure. That’s an excellent question. Bond rating agencies, of course, change the rules depending on which level of government, depending on the credit that they’re looking at. We just, we’re in the middle of the rating agency process. We do it every spring. We just sold some debt last week, thank God. The credit markets allowed us to sell half a billion dollars in debt.

The bond rating agencies have different
viewpoints. One of the issues that I think you touched
upon is, what do you look at more, the balance sheet or the
income statement. That was a major topic of discussion
with regard to OPEC and putting OPEC valuations as part of
our financial reporting with the implementation of
Statement 43 and 45. One of the big fears was, oh, boy,
our bond ratings are going to go straight down the tubes,
because we’re throwing this big liability on our balance
sheets.

Well, that hasn’t happened as of yet, and most
large governments have implemented Statement 45. And so I
think that most of the rating agencies, speaking from my
own personal experience of dealing with them, most of the
rating agencies will say, okay, your liabilities are only
one piece of the pie. They’re going to take a look at what
are your income tax flows, what are your cash flows, what’s
your cash position, how are you using that cash, what is
the management structure, is the management structure
making good decisions, and various other items.

The issue that the Federal Government faces,
though, is really quite different, because you really don’t
have ratings. You’re automatically assumed to be a AAA,
because you have a little printing press down here on 14th
Street, which I don’t have. In Colonial times, we did have a printing press, but you guys wrote us a loss —

[Laughter, simultaneous conversations.]

MR. JACKSON: You may still have it, you’re just not using it.

MR. WERFEL: Every once in a while, there’s an article written in the Wall Street Journal or otherwise, it happens about once every eight or nine months. And someone who is either associated with Standard and Poors or Moody makes some kind of comment about our sustainability issues and our AAA bond rating. I’m kind of conjecturing it’s a good read, but it does come up.

I just wanted to get a sense of whether the sustainability statement, my concern, coming out of the session this morning with the economist from Texas was that the providing of value to the, to people that would be looking at our financial statements from the standpoint of, is this a healthy investment, and there is skepticism that anyone would look at the financial statements in that way from the U.S., at the U.S. level. I don’t know, just something that kind of caught my attention and I’m trying to think through it.

MR. BERMAN: Yes, I was trying to reconcile that
when Professor Mosler said that. I was trying to reconcile that one in my brain as well, because I cannot foresee any situation where some investor would not see that, a U.S. Treasury bill, not to be a good investment, unless there is absolute dire inflation or absolute dire calamitous collapse of the governmental system that we hold dear today. And I just can’t see that happening.

MR. ALLEN: You went through these discussions, too, interesting, Danny, I was the chairman when we were considering this standard when we met with each of the three bond raters to ask specifically the question that you’ve just asked, what is the impact going to be. And we were told, we like it not because it tells you where you are, whether where you are right now is important. We like it because it is the marker that we can track where you’re going from here. And so that’s what’s important, the trend. Are they addressing it or is it getting worse?

MR. BERMAN: Last Friday, when Tom and Bob Dacey spoke to this national leadership conference, and during the Q&A, I did make a recommendation to Bob that you all might consider adding to the portfolio of information in the sustainability analysis some form of projection as to the world, global capacity to purchase ever-higher levels
of our obligations. That has been a serious consideration of mine for almost a year now, and that concern has really been elevated. Whether some people think it’s a good investment or not, you look at the competitive needs of other countries and also restrictions on diversification rules of other investors, I think you may find there’s a dollar limit past which the world will not go in buying our Treasuries.

MR. ALLEN: Comments? David?

MR. TORREGROSE: I was just going to add, we’ve had both Standard and Poors and Moody’s come by and talk about long-range projections. I have asked specifically if they look at the financial report, and they say yes. But I said, well, what about Social Security and Medicare, and they said, we know it’s not sustainable, we just assume something will be done, which isn’t very encouraging in some respects.

But there are credit default [indiscernible] markets for sovereign debt, and the price on the U.S. has been rising, on the U.S. I’m not sure why and I’m not, I don’t know who’s rising it, because I would think the counterparty risk is greater than the underlying risk that [indiscernible] talked about.
MS. FLEETWOOD: I had a question on another line. I was just trying to reconcile in my mind between the two presentations, because they’re both, you’re talking about really saw this as a projection of fiscal sustainability really, and didn’t really want to call it a statement, wanted to have it as a separate kind of document. And of course, the main thing we’ve got right now that’s impacting this projection of fiscal sustainability is really the statement of social insurance or the social insurance commitments or obligation or liability, depending on how you want to look at it. Although I know we want to cover other things.

Then I guess I’m going back to Ed’s presentation where, it’s like, it’s either a liability or it’s off entirely. And they don’t reconcile to me. Because I’m thinking about them, okay, well, if it’s okay to be a projection of fiscal sustainability, what’s wrong with projection of social insurance futures? They seem in conflict to me, because one is being presented one way and one’s like black and white the other way. It just doesn’t meld in my mind between the two presentations.

MR. BERMAN: Yes, I certainly got that feeling as well, reading the letters from the social insurance, folks
who commented on the social insurance is that we were pretty fractured. But my own personal viewpoint is that if you use the word statement, some readers who are very compulsive, I would say, would want to look for, okay, what’s my assets and what’s my liability. In a statement of social insurance, what is your asset? You can’t go down to the old GAAP root, as the chairman would remember, of the amount to be provided. I mean, what’s the amount to be provided? The future tax revenue? What’s the value of that future tax revenue?

MS. FLEETWOOD: I guess my question really, just to change your answer a little bit, because I want to make sure that I’m communicating well with you. Following your logic of projection, I’m agreeing with you, let’s make it even a separate document, or even at a prime place, we changed the order of our document. It strikes me, if you follow that logic, the logic of, okay, if we don’t feel comfortable putting it on the balance sheet because we don’t see it as an actual liability if you look at the definition, let’s say, there’s some in this group that feel this way, I’m not sure how it’s all going to play out in the end.

But the idea of having a projection of that, I
don’t think people would be too concerned about that, because then you’re portraying it in a way that takes it into account. So I guess I’m asking you about the social insurance, even though you’re up here talking about fiscal sustainability. Because it seems like it’s related to that. I guess I’d like your reaction to that. Are you feeling the same way, that it’s either got to be a liability or it’s got to be off the thing, or can you see it as a projection as well? I don’t know.

MR. BERMAN: My own personal viewpoint is that I really think that the various social insurance programs, as enumerated, are indeed liabilities. That’s my own personal viewpoint. There is a compact between somebody who pays into Social Security every paycheck and the Federal Government since 1935 that at some point, be it with an IOU or something else, there will be money in a fund to pay for it. I certain agree with former Comptroller General Walker, the fact that all that’s in there right now is an IOU. And again, I personally believe that it is a liability. I personally believe that OPEC is a liability, in the fact that there is a relationship, be it through union contract or law, depending on which State you’re talking about, or which governmental jurisdiction you’re
talking about, that the employer has made with the employee as a benefit for working. I absolutely believe that.

Do I believe that other long-term constitutional programs, such as defense and that are liabilities as well? No. Because if anything, those are almost one-way transactions, rather than two-way transactions.

MR. ALLEN: Thank you very much. We appreciate the opportunity of having you here.

We’re going to take a five-minute break.

[Recess.]

MR. ALLEN: Our next speaker represents truth, justice and the American way, I guess, The Institute for Truth in Accounting.

MS. WEINBERG: I didn’t wear my Wonder Woman outfit --

[Laughter.]

MS. WEINBERG: Thank you, Mr. Chairman and fellow FASAB members. My name is Sheila Weinberg, and I am the founder and CEO of the Institute for Truth in Accounting. You’ve heard from numerous people today who are working or have worked for the Federal Government or other governmental entities. Because of my humility, I’m hesitant to infer that I am the only speaker here today who
truly represents the ordinary citizen outside the Washington, D.C. area. Please consider these facts: this process is happening in the seat of the Federal Government, which is far away from the vast majority of our huge Country. Most Americans are busy, working hard to stay ahead during these strenuous economic times. And most people can’t afford the time or the resources to join us here today.

As the list of people testifying today demonstrates, the ordinary working Joe or Josephine does not have the -- and I use this term loosely -- does not have the luxury and resources to pay for a hotel room and buy a plane ticket to travel to their Nation’s capital to comment on standards, accounting standards that affect tens of trillions if taxpayer dollars and their personal retirement security. I am fortunate to be able to commit my own personal time and money to speak to you today.

So as you consider the testimony you hear today and the written testimony on these two important exposure drafts, please keep in mind that you have not heard from the true representation of Joe six-pack, Joe the plumber, or just the ordinary men and women and children of the United States of America. So I will do my best to give you
an idea of what they may think of these proposed standards.  

First, I’d like to give you some history on budget deficits myself in the Institute. I started working on Federal budget and accounting issues in 1992. At that point, budget deficits had reached an all-time high -- and now we look at those as the good old days -- an all-time high of $290 billion. By 1997, the budget deficit was only $22 billion.

On January 27th, 1998, in his State of the Union address, President William Jefferson Clinton expressed his commitment to strengthen Social Security by stating that we must put Social Security first. At this point, he started an education campaign to the public about the program and the long-term sustainability. He was smart enough to know that if he just came out and said, we’re going to raise taxes or cut benefits, they had experience with Mediscare, that that would just be demagogued to death.

So he understood that we needed a year of education, letting the people know exactly how these programs worked, what they can expect, the problems with the sustainability.

This education program was going along smoothly when lo and behold, on May 26th, 1998, President Clinton
announced a $39 billion projected annual budget surplus and
a $150 billion surplus projected over the next 10 years.
Later, it was projected that we would have surpluses as far
as the eye could see.

When President Clinton made this announcement,
the Social Security First education program stopped. They
had done three of four educational programs, seminars, they
never did the fourth. And any of Social Security reform
was buried. After all, Americans thought we had hundreds
of billions of dollars, if not trillions, sitting around in
Washington just waiting to be spent. We could just use
that to fix Social Security and pretty much do anything
else we wanted to.

The cloaked surpluses continued for the next
couple of years. But something was troubling me and the
audiences I was giving speeches to. How could we be
running surpluses while the debt was going up at the same
time? As an accountant, this made no sense to me. So I
spent a whole summer digging through the 197-page Federal
budget to investigate this. I don’t remember why I didn’t
have something better to do that summer.

But in the fall, I’d come to the conclusion that
we were really not running surpluses. Any surplus money
was already allocated to Social Security and other so-called trust funds. Professor Hal Jackson’s study found that if we accounted for Social Security on an accrual basis as it should be, we were actually running a half of a trillion dollar deficit.

Then came the 2000 Presidential election. The use of the cloaked surpluses became a big campaign issue. Woody, you might have voted for George W. Bush because he was going to return the surplus to the taxpayers in the form of a tax cut.

MR. JACKSON: You’re not suggesting I did vote for him? Or not, one way or the other.

[Laughter.]

MS. WEINBERG: Or Alan, you may have voted for President Al Gore, because he was going to use some of the surpluses for tax cuts, some for spending and put some of us, and put the Social Security surplus in the lock box. We all remember that.

But I knew that if you did the accounting properly, there was no surplus. And that is why I started the Institute for Truth in Accounting. I understood that the American people had elected the leader of the largest financial organization in the world, the Federal
Government, based on fuzzy math. The facts were that we did not have surpluses, we actually had more than $3.5 trillion of public debt and more than $20 trillion of unfunded liabilities for Social Security and Medicare. But instead of focusing on how the Country would deal with these unfunded liabilities, especially in light of the baby boomer retirement coming, the campaign focused on how these fictitious surpluses would be spent.

These examples serve to illustrate the fact that how you account for surpluses and deficits does matter.

As I’ve previously testified, I must highlight our concern over the independence of FASAB and its ability to set unbiased standards. The heart of the accounting standards process is the standard-setting body and the soul of that body is independence. Because of the size and complexity of the Government, the public has limited access to its financial information. As Thomas Jefferson once said, an informed electorate is the basis of a sound democracy.

But it is impossible for our citizens to be knowledgeable participants in their Government if they are not given relevant, accurate, objective and non-political information. The heart of such information is unbiased
accounting standards. The information reported using these standards must not be skewed to the advantage of elected officials, their appointees and employees or any political entities. The selection of the FASAB members and the procedures used to set standards must facilitate neutrality and objectivity.

On November 26th, FSABA issued a document entitled Clarifying FASAB’s Near-Term Role in Achieving the Objectives of Federal Financial Accounting. This document correctly noted that independence has been identified as the most critical for GAAP standard-setters. The 2008 FASAB Facts stated that to accomplish its mission, the FASAB has to be objective, neutral and ensure as much as possible that the information resulting from its proposed standards is a faithful representation of the effects of the Federal Government activities.

This document continues that objective and neutral means free from bias, precluding the FASAB from placing any particular interest above the interests of the many who rely on the information contained in the financial report. To ensure public confidence, the independence of FASAB needs to be above question.

Many question the FASAB’s objectivity and
neutrality. Significant political consequences may result from the information reported on the Federal financial statements. The three principals are appointed to their position by elected officials and four board members are employed by elected officials.

Because most of the principals and Federal members of the board hold their positions based on the relationship to the elected officials, they have a vested interest in the content and format of the information reported to the voting public. The clear conflict of interest faced by the Federal Government employees places them in an awkward and untenable position when considering decisions that have a direct or indirect impact on their agencies and virtually all of FASAB’s decisions have a direct impact on those members’ employees.

This is especially true with the proposed standards we discussed today. These standards cannot be tainted by the vested interest of any political group inside or outside the Government. The influence of the governmental officials were questioned the last time the board debated whether Social Security should be recorded as a liability.

In a document December 21st, 2000, Fact Alert from
the Concord Coalition, titled The Case of the Missing Liability, the Concord Coalition noted that the requirement to report the social insurance liability as a liability on the balance sheet was, and I quote “dropped at the insistence of the Administration which does not want the public to focus on the liability number.”

From the first time I heard about FASAB, I have been concerned about the board’s lack of independence. Government officials have the authority to appoint members to the Governmental Accounting Standards Board. I equivocate this to the auditors and the accountants of General Motors determining what General motors will report on their financial statement.

In 1999, my concerns over FASAB’s independence was echoed by your current chairman, Tom Allen, then the head of GASB; Edmund Jenkins, the head of the FASB; and Manuel Johnson, the then-head of the Financial Accounting Foundation. These well-respected gentlemen stated that the FASAB contained several members who clearly lacked independence. The FASBAB members’ lack of independence had concerned them about the stature and credibility of all GAAP. And these gentlemen were greatly concerned about the principals’ ability to veto the standards.
During the deliberation of the current social insurance standard, my apprehension about the board’s independence has been heightened. Here is how the process looks to me as an outsider. It appears that in the fall of 2006, the public members of the board agreed that a social insurance liability should appear on the Federal balance sheet, and a corresponding expenses should appear on the “income statement.” Usually, when such a consensus of the board is reached, it issues an exposure draft for the public’s review. But since the Federal embers of the FASAB strongly believe that the liability should not be recorded as a liability, and the related costs should not be reported, a “preliminary views” document was issued in October of 2006. Six months later, the board held a public hearing to hear testimony about the preliminary views document. And finally, in November of 2008, an exposure draft was issued. And now, here we have a hearing on the exposure draft.

Now, let’s look at what has happened to FASAB since all of the public members concluded that the social insurance liability should be reported on the balance sheet. As an outsider, to me, it appears to me that the Federal Government did not want sunlight to be shed on the
$59 trillion liability. So what did the Government do?

I described this situation to my husband, who I can tell you is more than sick of hearing about Federal accounting and budgeting issues. And he said it sounded like jury tampering to him. And jury tampering is the undue attempt to influence the composition and/or decision of a jury during the course of a trial to get a desired outcome. Jury tampering undermines the public confidence in the deliberation process, the verdict and the whole judicial system.

It appears that the FASAB principals issued the preliminary views document as part of a stall technique. They stalled the process until new members could be appointed to the board. Because in October of 2006, all public members wanted the Social Security liability to be reported. And since that date, two of the “public” members, both of whom are former deputy controllers of OMB and Federal members of FASAB have now become members of the board.

Now, surprisingly, the Board is no longer proposing a standard that would report the social insurance liability on the balance sheet. In addition, there are rumored reports of possible principal veto if the standard
proposing the balance sheet reporting is given to them.

The influencing of the board’s composition and
the attempt to influence the FASAB decisions has left me
with little confidence in this deliberation process, the
final standard that will be issued and the whole Federal
Government accounting standard-setting process. I feel
very disheartened. I feel foolish that I have used my
money, my own money, not the Institute’s money, because for
some reason, people will not contribute to the Institute,
it’s not a sexy topic. I have used my own money to pay for
my trip here from the heartland and used my time and effort
to respond to the exposure drafts before you.

But since I’m here, I will have comments on the
two exposure drafts. First, some brief comments on the
exposure draft for fiscal sustainability. I believe that
the basic statement should be titled Statement of Fiscal
Sustainability. One of your suggestions had it called a
statement of financial condition. If you recorded the
Social Security liability, social insurance liability
programs on the balance sheet, that would be the statement
of financial condition.

Paragraph 38 of your exposure draft says that
“The information may be provided in a single debt to GDP
ratio.” The executive summary smartly discusses the concept of inter-period equity. Obviously, this concept means that one generation should not have the ability to pass the debt to another generation.

Assuming that the GDP grows, which in these times may not be a great assumption, then the debt could grow and the debt to GDP ratio would stay the same. This is contrary to the generational concept of no debt being incurred.

As a member of the Fiscal Sustainability Communication Task Force, I must remind the board to keep the information presented as simple as possible to avoid overwhelming the reader. Also keep in mind that in this modern day of technology, the basic information can be easily linked to more detailed information. I like the basic financial statement’s statement of long-term projections for the United States Government, even though I would call it the financial statement for fiscal sustainability. And I believe it would confuse the unsophisticated reader of the financial statements.

The verbiage about the actions that would need to be taken to avoid unsustainable levels of Federal debt is good. I always worry about the use of the term GDP. But
the simple explanation at the bottom of the proposed basic financial statement is a good one.

I would be hesitant to put specific program titles in the standard and the basic financial statement. Because if new or other programs become larger than the specified programs, then they would be recorded in a combined number with all other governmental spending. I would advise that you consider something like programs over X percent of total receipts and spending needs to be detailed. I also believe that the infinite horizon period should be recorded.

Politicians seem to be very creative. As we’ve experienced, when the Government does projections for five or ten years, it figured out that if they just put into law that we’re going to increase something in the 11th year, that they can avoid the budget constraint. So by using the infinite time horizon requirement, the standard will not allow for such trickery in financial sustainability reporting. I.e., I would foresee the legislature mandating a massive tax increase to fund the social insurance benefits in year 76, thereby reducing the current present value.

Now on to the social insurance exposure draft. I
strongly believe that the social insurance “commitment”
should be an amount reported as a liability on the basic
financial statement, and that related costs should be
reported as an expense on the statement of net income.

Transparency, not translucency, was the goal of
the board when it set out in 2003 to improve on how the
social insurance should be recorded. Social insurance
liabilities are set through continuing appropriations.
Congressional action is needed to increase or decrease
these benefits. Government officials have argued here that
they can alter or even cancel promised Social Security and
Medicare benefits; therefore, these benefits cannot be a
liability. It is true that these benefits are legislative
entitlements and not a contract. But these programs are
contributory in nature. It is a permanent appropriation
and it is immensely popular, has always been immensely
popular, and even given a special protected status.

Does anybody seriously doubt that the Social
Security unfunded promises constitute some governmental
obligation? There is a fundamental contradiction in the
Administration and other governmental officials’ position.
If it is believed that there is no social insurance
liability, why does it endorse terminology such as “trust
funds” and “insured status” and “earned benefits” that imply that Social Security is a property right? When arguing in its case to experts, the Administration and others stressed that Social Security benefits can be canceled at any time. When talking to the public, they insist that the Social Security is a sacred contract. A constructive debate depends on honest argument and honest numbers. It is time to stop the double talk and focus on the true numbers.

Reporting the social insurance liability on the face of the balance sheet or related costs on a statement of net costs would allow the public and their elected officials to straightforwardly identify increases or decreases in promised benefits. Then the public could easily evaluate their elected officials’ decision to adjust these benefits. Unfortunately, because of board manipulation, the proposed standard is like frosted glass, translucent. Translucent in that it permits light to be passed through but it is diffusing, so that the numbers are not clearly visible.

This is what I believe, that someone should do an official survey and ask the public if they believe Social Security and Medicare are a liability of the Federal
Government. In my personal survey, everyone is dumbfounded when the hear that these liabilities are not on the Government’s balance sheet. But I usually talk to business people, so I tried to think about what the woman on the street would think about this. I assume that a woman on the street would whip out her BlackBerry and look up the definition of these terms on Dictionary.com. And I have handed you those definitions.

A liability, she would find, is defined as monies owed, debt and financial obligation. I don’t use the word they use, because I’m so nervous I can’t pronounce it. An obligation, the one I found most applicable to this situation is a binding promise, contract or sense of duty. And most people think of these programs in terms of entitlements. And there again, the entitlements, I’ll focus on the last one, is a right to a guaranteed benefit under a program, as Social Security and Medicare. I did not add, as Social Security and Medicare. That was on the website.

And then focusing on the word guaranteed, a guarantee is a promise, and then a commitment. We get back to a promise and an obligation. So we kind of go full circle here that a liability is an obligation, a commitment.
is an obligation. They’re all promises. It looks like we’re going to play with what do you mean by “is” in this situation.

You are proposing using the term social insurance commitment at the bottom of the balance sheet. So that is why I looked up the word commitment there, and found that it also discusses an obligation, just like a liability discusses.

Now back to the discussion about accounting for, how accounting for the deficits matter. Just like a corporation’s bottom line or earnings per share, it is what the people pay attention to: the deficit number.

In his Presidential address last night, President Obama noted that he will cut the debt in half for the next four years. And I did not plant this, I found this on the train on the way over here from my hotel, Obama Vows To Half The Deficit. The deficit’s term matters, the deficits matter, but I [indiscernible] give you my opinion on that.

Let’s look at the deficit calculation sheets that I have given you. Those are the schedules. The first schedule, the deficit amounts. The first line is the budget surplus for 2003-2004. And you’ll notice that the deficit increased by 10 percent that year. As you look at
the net costs, on the bottom sheet of those two, the
statement of activities for those two years, the deficit
amount actually decreased by 8 percent.

    If the net cost for social insurance was
included, you will note highlight the 2004 $11 trillion was
added to what was the deficit that year. So instead of
reporting a $52 billion surplus or a $37.5 billion deficit,
what we consider the true deficit was $11 trillion. I
think I got my numbers mixed up there. But obviously the
number is higher. And I believe that this information
gives the public information they need about that important
prescription drug decision that was made, not whether they
were for or against it, but just what happened to our
deficits and to our Country’s financial condition in
relation to that.

    MR. ALLEN: Sheila, I don’t meant to cut you off,
but our time is getting a little bit short. Could I get
you to describe a little bit, there’s an overall
perspective statement that you’ve given us.

    MS. WEINBERG: Yes.

    MR. ALLEN: Is that a recommendation of how we
could deal with it? And then ask you to be open to some
questions from the board for the remaining time? Is that
all right?

MS. WEINBERG: Sure, I think that would be all right.

MR. ALLEN: We do have the written comments you’ve given us, and we do appreciate that, as well as your service on this project.

MS. WEINBERG: I [indiscernible] those too many but I will give those [indiscernible]. I can just flip over.

We refer this, to this schedule, fondly, as page 11. It was included in the MDNA in 2004. It was in there in 2003 and 2004. Honestly, when this schedule came out, I thought a large part of the Institute’s mission was done. I’m like, finally, the Government is going to be transparent.

But unfortunately, this schedule was not put in, was removed from the 2005 report, and we have not seen it again.

I also prepared for you the key measure schedule, which I think more clearly lays out the key measures, especially the unified budget deficit as it compares to the net operating costs. And then I will take questions.

Thank you for your time.
MR. ALLEN: I do want you to know we have been chastised. We do appreciate your service on the task force that led us to this project on sustainability and we appreciate your feedback on that, as well as the feedback on all of these projects.

In terms of the proposal, the compromise, if you will, much of what is in this table if key measures is actually included as part of the required MDNA. So I’m assuming that you would be supportive of that aspect.

MS. WEINBERG: I just didn’t like the format. This is a better format.

MR. ALLEN: All right, so this is your recommendation for a better format for that. Okay.

Let me open it up to other questions that people may have. Questions of any of the board members?

Go ahead, Jim.

MR. PATTON: In your submitted testimony on the projections, you seem to be not very fond of the illustrations that were provided in the appendix, the illustrations we provided. Do you not have a copy?

MS. WEINBERG: I do in my [indiscernible]. I remember them.

MR. PATTON: Well, some of them, on 1 to 5, where
1 is bad and 5 is real good, goes to at least a 3, but
nobody got above a 3. I wonder if you had any particular
suggestions on sort of what was wrong with them and what
might be done. Or if you’re not prepared to do that now —

MS. WEINBERG: That’s all right. I think that
the major thing is that just understandability of trying to
get this information in a format for people to understand.
I just, I thought the scheduling was, I think they used in
the conference of, what is that MEGO, you know, my eyes
glazed over. And I consider myself a sophisticated person
in these matters. So mostly just readability and
understandability for the average person.

MR. PATTON: Okay, thank you.

MR. ALLEN: In your response to the question of,
and I think, we clearly know your opinions from your
testimony a few years ago, of liability or not, but as it
relates to the schedule, part of the compromise proposal,
if you will, had a line below the balance sheet that was
based on the closed measure. I see from your response you
support that, but I didn’t get any overall comment about,
you know, it isn’t even worth putting there at all, or I
understand [indiscernible], it’s not my first choice, but
if you aren’t going to put it as a liability, put it there.
Or I’d just assume, if you’re not going to put it as a liability you don’t put it anywhere.

Can you response to, do you think it helps by adding that line on the balance sheet? Does it move the ball down the field? It doesn’t get to where you want to go, but does it provide valuable additional information or not?

MS. WEINBERG: I think it would, obviously you know what I want. If that is not the choice of the board, then putting it on the face of the balance sheet would be advantageous. Again, we noted that the further down you go in those financial statements, the less likely people, the ten of us will [indiscernible] are going to be.

I would also like to comment, sorry to divert, on the concept that David Walker proposed this morning, which I unfortunately was not here for, putting the trust fund debt on the, as a liability. Currently, people are having Social Security taxes taken out of their pay checks. And as we know, those taxes are not put in the trust fund. Those are used for current goods and services.

If those taxes did not exist, other taxes would have to be increased for the current generation, for lack of better term, set of taxpayers.
MR. JACKSON: To pay Social Security?

MS. WEINBERG: To pay everything. Because right now, Social Security money --

MR. JACKSON: Is being used to subsidize [indiscernible].

MS. WEINBERG: Right, is being used to subsidize the rest of the Government.

Or spending would have to be decreased for the current generation of taxpayers. Therefore, the current generation of taxpayers is already receiving, I don’t know what’s the right term to use, but benefit from those taxes that they’re paying. Because otherwise they’d be paying other taxes or benefits would be decreased. The politicians are just lying to them that their Social Security taxes that are going into the trust fund and then you’re going to get them back.

So if you look ahead, when the trust funds flip, and there’s no longer any theoretical surpluses, then those bonds are going to have to be redeemed. And I don’t think it is right that the next generation should have to pay higher taxes or have Government spending cut just because the past generation elected people who lied to them about what is happening. The future generation, I’m very nervous
about what’s going to happen with these “trust funds” is that the retirees at that time, when those funds, those bonds have to be redeemed, is going to go to Treasury and say, and Congress and say, we have a first mortgage on the Country and you must pay these benefits before you pay anything else. I don’t care if you have to raise taxes, we don’t care if you have to cut education, we don’t care if you have to cut roads. We paid into the system, we deserve it back.

Well, they were lied to. And the future generation shouldn’t be punished because this current generation, the current taxpayers now, elected officials who continually lied to them.

MR. ALLEN: Woody?

MR. JACKSON: I’ll keep it brief. I just want to react to that. Having been around for too long, actually, I’m eligible for Social Security. I don’t draw it yet. I’m hoping that the Government will be able to pay when I decide to draw it.

But I’m struck by that notion, Sheila, that folks have been lied to. I just feel compelled to react to that, because I just don’t really subscribe to that. And I say that to you in good conscience. I have heard repeatedly
that we’ve talked about lock boxes and trust funds and stuff like this. But I have, as long as I’ve been around, I have heard over the years, I’ve heard said and I’ve read and I can’t cite you song and verse right now, but I’ve heard said over and over again in a very public way that these are pay as you go systems. This has been a pay as you go system. And I can speak to you from my personal past, which you alluded to a while ago, that some people who are very knowledgeable and committed to the longevity of Social Security have reiterated to me personally, based on their experience in the Congress and in the executive agencies that this is just, really is an income transfer program.

And I’m not making an argument that it’s not a liability. I’m not making that argument. I’m just reacting to the notion that, I don’t subscribe to the notion that people have been lied to. I think that’s, I will say that I don’t think, and I think that this board is making dramatic progress in trying to get information available to the public with regard to the ability of this Government to meet these commitments or whatever they’re called over the long haul.

But I just, I just really felt compelled to react
to the use of that particular word, because I just really
don’t think that’s fair. I really don’t. We’re here
talking about liability measurement, and I, and there is, I
think, a reasoned debate on that. But I just say that
because I just don’t that’s, I just don’t think that’s the
right word.

MS. WEINBERG: That comment is based on a lot of
things. But I just prepared my W-2s for some employees,
and on the W-2s it clearly states that Social Security is
withdrawn.

MR. JACKSON: It’s a contribution. It’s a tax.

It’s a tax.

MS. WEINBERG: Again, I think we can debate that.

But --

MR. JACKSON: Yes. I think --

[Simultaneous conversations.]

MR. ALLEN: What I’d like to do --

MS. WEINBERG: -- disconnect between what people
in Washington think --

MR. JACKSON: I understand.

MS. WEINBERG: -- and what the rest of the
Country thinks.

MR. ALLEN: We’ve got two other people who have
comments, but we do need to move on. Would you be willing to take comments, written comments and then respond back in writing and we can share that with the whole board?

MS. WEINBERG: That would be fine.

MR. ALLEN: Thank you. Appreciate that very much.

MS. WEINBERG: Thank you for your time. And thank you for your efforts in trying to bring light on this subject.

MR. JACKSON: Thank you, Sheila.

MR. ALLEN: Representative Cooper, we’ll turn the floor over to you. What we would ask you is the same thing we’ve asked everybody else, go ahead and make some comments, but please allow us enough some time to ask you questions about why you feel the way you do.

MR. COOPER: Thank you, Chairman Allen, members of the board. I appreciate the outstanding work that FASAB does, and I like the compromise you’ve come up with. It’s wonderful to have a good discussion [indiscernible] and the MDNA. I think it’s very nice to have a separate line item on the balance sheet. I’m a little disappointed it’s below the net position instead of above, but I’ll take what I can get.
MR. ALLEN: You must be a politician.

MR. COOPER: I view myself as a member of your target audience. I deal with regular folks back home every day. I wish they would pay more attention to these things, but we have no hope of reaching them unless it’s on that one page. If it’s on a separate page, a separate document, no matter how brilliant it is, we’ll lose them. As I understand it, many Presidential decision memos are no more than one page. I was personally a victim of a tactic by Senator Jesse Helms, back when he was a Senator, because he prevented the officials of the Department of Agriculture from ever putting on one page the details of the tobacco program. So no one was ever able to ferret out exactly what was going on.

So I’m a big believer in one page. I respect your brilliance in accounting, and there are many fine points that I’m sure I don’t understand. But in terms of public communication, I think it’s very important to reach out.

I found something, and I’m not recommending that you all use it, but I find in terms of reaching folks, these devices may seem simplistic, but they’re remarkably
effective. Moody’s has come out with a chart just this February, displaying our liabilities. It’s on the last page of your handout here. Some of you have the pastel version and some of you have full color. I think this is a very helpful way of illustrating our fiscal situation in one glimpse, not just one page.

So there are different methodologies. I don’t know if FASAB has the leeway to move in a graphical direction. But I think this helps illustrate what the Peterson Foundation is trying to do with their iceberg metaphor, what lies beneath the surface.

I also included a picture of a Catholic nun herding some young kids down the street. I would suggest to you that no nun would ever use the due and payable standard when it comes to field trips.

[Laughter.]

MR. COOPER: They don’t wait for kids to show up, they try to predict and prepare for the needs of these children, so that every child can be taken care of. And as much notice as you can get, the better off people are.

So to me, these are the fundamentals, the back-home, common-sense fundamentals. And I think that as our Nation, in these perilous financial times, it’s more
important than ever to get the news out. FYI, the
Government Printing Office was a month late in printing the
financial report of the United States. They’ve already
sold out completely. So unless you’re willing to burn your
printer up with 200 pages back home, no American will see
that document. So I think we have to have a better way of
getting it commonly understood.

The irony is, of course, the Federal budget,
which will be delivered tomorrow, and it’s a stack this
high, probably 4,000 pages, will be widely distributed and
will be in every library in America. And the more readable
public company format document that does a better job of
explaining our situation will be almost, go completely
unnoticed.

So thank you for letting me testify. I have very
elloquent written testimony here that I did myself and I
will spare you from going into the details.

[Laughter.]

MR. ALLEN: I think this is great.

If it’s okay for the board, I’ve done this
several times today, and I apologize, but I’d like to lead
off with maybe a discussion, getting your feedback, because
of your unique background, that of being an accountant as
well as being a Congressman.

MR. COOPER: Just what they teach you at a business school. I actually never took an accounting course other than accounting for lawyers at Harvard Law School. And then of course I was terrible.

[Laughter.]

MR. ALLEN: In terms of, the issue was focused quite a bit, or the differences of opinion today, in regard to whether or not there’s a liability, focuses to a large extent of what has been communicated to citizens and has that risen to the point of a commitment that one could say now takes on the characteristics of a liability?

Related to that is the notion of, liability should only have a legal basis. Nothing that doesn’t have a legal basis should be that, the opposite of that is, what is the economic understanding of a promise made between two parties. So can you comment on that broad issue?

MR. COOPER: I would agree that strictly speaking, Medicare and Social Security are not contractual, vested liabilities. But on the other hand, we need to be preparing for them. So I would suggest an intermediate category, kind of a liability with an asterisk. Because I do not want to lock in Congress so that we’re unable to
reform these programs.

But the clear expectation on the part of every living politician in both parties and every living beneficiary is that these are near-sacred commitments. So they’re actually putting them in a category more exalted than a vested or contractual benefit. And I can guarantee you, there will be hell to pay if politicians mistreat these benefits.

So this is the biggest disconnect in all of American political life, the fact that on the one hand, every speech makes these sacred, and then on the other hand, our accounting disregards them almost entirely. How do we reconcile these two? The only solution I can figure out is, like in the liability with an asterisk, not to lock it in, but to allow a period of preparation.

I’ve suggested before the AARP standard. Because they know my birthday better than my wife does. They’re very good at keeping up. Perhaps the Federal Government could use that same standard, so the Federal Government’s not at a disadvantage vis-à-vis one of the larger interest groups. Because they’re very good at keeping track, age 50 on. That would be perhaps a good compromise.

MR. ALLEN: Of recognizing a liability from those
that are age 50 on?

MR. COOPER: So we’d have a period to calculate
and prepare. Because right now, the due and payable
standard says the month you get the check, then you start
showing up on the books.

See, people back home are naïve and they think we
do a census for a reason. And they don’t understand that
we don’t start counting people when they’re born or when
you turn 18 or when you pay in 40 quarters of payroll taxes
or when you turn 62 or 65. Under the due and payable
standard, strictly speaking, you’re only registered on the
books once you need the check. That gives us, as a
Government, almost no time to prepare and very few of my
colleagues are versed on these numbers. If you were to
have a test on what present value is, for example, most
people would fail. It’s very important that we get an idea
of these pending liabilities.

Standard and Poors and Moody’s have both already
projected that the U.S. Treasury bond could lose its AAA
rating as soon as 2012. These projections were handed out
before the current financial crisis. So if anything, it’s
more current. And Standard and Poors does a remarkably
unusual thing. [indiscernible] saying that by 2015, the
United States of America will have the same credit rating as Estonia or Greece. This is stunning, what these programs have the capability of doing to our Nation’s finances. And we need to accept the responsibility we’ve undertaken and prepare to meet it. CBO just came out with an excellent document called health options in January, giving us 140 different ways to reform Medicare. But people are not reading the document, because they don’t feel the need. We need to help them understand the need. President Obama stressed it in his speech last night, reform health care, reform health care. But we need to be doing our homework in Congress and clearly visible quasi-liability on the books would really help us do that. Because then there’d be no denying it. It wouldn’t be in an appendix somewhere, it wouldn’t be in a wonderful statement of social insurance. I love that statement. But nobody’s looking at it.

I have trouble getting my students at [indiscernible] Business School to pay attention to it, and I can grade them.

[Laughter.]

MR. COOPER: So without that enforcement authority, it’s just very difficult to make people sit up
and take notice. It’s just like there’s just massive
denial. People can’t imagine that their little element,
for example, physicians come to us every year wanting the
sustainable growth rate fixed, a Medicare payment update.
Well, they do not realize that according to the U.S.
Treasury Department, that little fix is $5 trillion.
Because they’re just asking for a little fee adjustment
there. You multiply it by 700,000 docs, and pretty soon
you get a real number.

So this is, historians will look back on this
time and they’ll say, they had proper tools, but they
refused to use them. And you are the tool makers here.
You give us the tools with which you can analyze the
budget. And you’ve done wonders. The financial report is
awesome. I’ve worked hard to get it literally distributed
to every book store in America, privately published. Now
there’s a link to it on the White House website. The
President had a fiscal summit this last week. So we’re
making some progress, but we need to continue that effort.

MR. ALLEN: Hal, you had a question.

MR. STEINBERG: Yes, a comment/question. I guess
you answered the question. I was going to ask if the
liability was an estimate. I think Penny, who’s doing our
elements project, concept statement, I think she would have
had a little bit of a heart flutter when she heard that we
have a [indiscernible] called liability with an asterisk.

But I was going to ask you, but you answered the
question, isn’t the number on the statement of social
insurance a liability with an asterisk. It’s on one page.

But the question I really wanted to ask you, you
did not, at least what I read in your statement, provide us
with your views on the fiscal sustainability exposure draft
and FASAB requiring a statement that would show the
imbalance between expenditures for all the programs you
folks have enacted and the revenues that you have also
enacted going forward. If we continue to move forward on
that and require the issuance of a statement of fiscal
sustainability, do you think we need to add the additional
information to the balance sheet?

MR. COOPER: First question, I agree, you’re
almost there with the social commitment item
[indiscernible] that position. I just worry, and this
sounds simplistic, but don’t rely on people to add or
subtract. You have to do it for them. You have to make it
really plain.

So I would prefer it be above, and so the net
position is really indicated, so there’d be essentially one number that you could point to.

As for sustainability, I would beg for a little bit more time to fully understand that. The old phrase from one of the economists was, if it’s not sustainable, it won’t continue happening, or something. Well, that gives people sort of a false sense of confidence. It hasn’t collapsed yet. Well, I was here in 1983, where we came within about a month of Social Security collapsing before we took action. It shouldn’t take a crisis to get Congress to respond.

So there are a number of programs we need to focus on sustainability on, and I ask in my statement here that you focus on Medicaid. It’s a vitally important program. And as I understand it today, we barely have the tools to measure its sustainability. So how do we do that?

There are other programs, our friends who are veterans have no idea that according to the financial report of the United States Government, the present value of our commitment to veterans went up last year alone, the incremental, $340 billion. Now, you can vary interest rate assumptions, do whatever you want. That is astonishing. And they are completely unaware of it. And therefore,
ungrateful. And today we’re getting more and more requests. The DAV was just telling us this week, no hint of thankfulness.

That used to be the size of the entire Defense budget. This is just what we did in one year.

It is stunning. Because pretty soon we won’t have enough money in the Defense budget, the way we’re heading now, for active duty troops to buy weapons. That’s the trend. And the Secretary of Defense is very worried about that. So we have to have better tools for understanding our commitments. Because recruiting one troop doesn’t seem to be that significant. But if you look at their lifetime cost, it is a remarkable commitment.

So sustainability, it’s a difficult question. But I would like a little bit more time to fully understand that. I just think that particularly with Medicaid, which is probably a $30 trillion problem that the Treasury estimates, how we are going to handle all that? And right now, it’s almost completely ignored. Even in the financial report.

MR. ALLEN: It isn’t broken out separately like the other social insurance programs.

Woody, you had a question?
MR. JACKSON: Something you said, Congressman, that in terms of the, you did not want, I don’t want to try to quote you exactly, but my interpretation of what you said was, you would not want us to do something that would impair Congress’ ability to reform the program. Can you give me an example of something that we might do that would impair Congress’ ability to reform the program? For example, it has been stated in deliberations that liability recognition would do that. Might do it. I don’t want to be too specific.

MR. COOPER: You know I didn’t study accounting. I did go to law school, but I’m still probably not a very good lawyer, either, because I haven’t practiced --

MR. JACKSON: Well, some of us aren’t very good accountants, either.

[Laughter.]

MR. COOPER: My guess is you probably could not create a legal entitlement here, but you could further enhance the expectation that’s already been enhanced by politicians that people have a claim that there might be a Federal judge somewhere, remarkably that would give enough indicia of expectation.

These are murky topics, as a law professor at W&L
will tell you, Timothy Jost, a Medicaid entitlement is remarkably tenuous. The Medicare entitlement is firmer, Social Security is probably firmer still. But after funding [indiscernible] we can pretty much change it at will.

The imbalances are so great right now that we do need flexibility. For example, I have a proposal right now that would allow us to reform the Medigap insurance market. Because even the trade association that represents those insurance companies has acknowledged that their predatory activities cost Medicare about 14 percent of total Medicare spending every year. That’s 14 percent of almost $500 billion.

MR. JACKSON: And what kind of predatory activities are those?

MR. COOPER: Well, Medigap is a Congressionally-created insurance market, you have to sell a policy A through J. And the effect of these policies is to eliminate the co-pay and deductible on Medicare. So it essentially makes Medicare free. You make any benefit plan free, then it leads to some over-utilization.

MR. JACKSON: I see.

MR. COOPER: Most academics have thought between
20 and 30 percent over-utilization. Even the trade
association is now admitting in a published, peer-reviewed
paper that it causes 14 percent over-utilization.

MR. JACKSON: It’s not the Scooter Store
syndrome, is it?

MR. COOPER: Well, you got it. Probably one
[indiscernible]. So this is tens of billions of dollars a
year that even the trade association owns up to. And I’ve
had the privilege of asking some of these company
representatives in my office if they would allow a private
insurance company to eliminate their co-pays and
deductibles. And they said, oh, we’d never allow that to
happen. But why are they able to do that to the
Government? Because Uncle Sam isn’t paying attention.
There are different ways we could restructure that benefit
so it is more preventive care, more long-term care,
something that seniors would genuinely benefit from.
That’s an example of a restructuring that could help
seniors and lower the costs for Medicare. Because this is
a very unintentional, very unfortunate side effect of
otherwise good private sector behavior.

But the CBO document is really marvelous, because
each one of their 140 policy options is scored. My
colleagues are almost afraid to look at them, because unless there’s a crisis, unless there’s a need, why get in trouble? Because even thinking about some of these things can get you in trouble politically.

MR. JACKSON: But we struggle with this notion, at least I do, if we do something that members of Congress believe will really encumber their ability to do something meaningful here, it would be interesting to know that for sure. There’s a suggestion, but I sometimes wonder if it’s on point.

MR. COOPER: It’s probably more fear than reality. I think you’re going to get more from the advocacy groups, oh, you can’t change this because, and this is an official government document, see, they called it a liability, and liability means it will be covered. A logical argument, but not a real one, because I think we have to establish the guidelines. We have to put that in law.

MR. ALLEN: Danny and then Jeannette.

MR. WERFEL: Congressman, I was wondering about your thoughts on something that we in the Government accounting and management field have struggled with for years, and that is the citizen touch point between
Government financial information and where their interests lie. We’ve been putting out balance sheets now since the CFO passed and the GMRA law passed. I think we were on our 12th year of putting out the financial report.

It’s our understanding that that balance sheet, even on one page, is not resonating with the citizens, they’re not finding meaning in it. If you look at the balance sheet today, you still have a negative net position in the trillions of dollars. Yet that is not generating the types of questions and inquiries and concerns.

And so my thought is separate and apart, and this board has not been able to come to an agreement. We’ve had a lot of experts sit at the end of the table, give us some very different views on whether it’s a liability or not. Whether it’s a liability or not, I still think that even if you went down the liability route, and you add the trillions of dollars to our balance sheet and a corresponding hit on the net operating costs, I’m personally not convinced that that would be that citizen touch point that you’re looking for. I think what the sustainability project is trying to do is try to explore, maybe there’s other ways, and maybe we need to get it down to one page, but there are other ways to kind of generate
that type of interest and attention. Because the balance
sheet, just because it’s the balance sheet, has not seemed
to generate that type of interest.

And just one other thing, one of the thoughts
that I’ve had continuously is that we’ve been searching for
this, where’s the sweet spot where the citizens are
interested in financial information. I think we’ve been in
the realm with the balance sheet of telling the world what
we owe and what we own, and people aren’t clicking to it or
reading it.

But yet this new kind of push for transparency in
terms of where the money is going, USAspending.gov, the
Transparency Act, Recovery.gov, when we launched
Recovery.gov, we got 3,000 hits a second.

So that seems to be more where, in my mind, where
we might be hitting that sweet spot. I just wondered if
you have any thoughts about that.

MR. COOPER: Well, in my area, only Presbyterians
are so fatalistic about things. I would not give up, and I
would pursue several different paths to acquaint people
with the truth. Because every person has a different
learning style. But I would suggest to you that the
average Rotarian all over America thinks they understand
balance sheets. They’re probably less familiar with other methods of appraisal. Probably a little more suspicious of those.

Let me give you an example. Bob Cutler, in the Washington Post this week, has a nice column in which he describes accrual accounting as creative accounting. Well, I thought it was the standard for every business in America with revenues over about $5 million and every State and local government and large non-profits. Yet he can dismiss it as creative accounting?

Folks back home know better. And maybe I work my constituents more than most Congressmen have, but they so totally get it, a shocking number of my constituents were already in cash before this financial meltdown. And the appreciation they express to me is extraordinary.

Now, I do not give financial advice. But they knew enough about things like, for example, while Secretary Leavitt was going around the Country bragging that Medicare Part D was so much cheaper than expected, my folks knew that, well, it was supposed to $8.4 trillion net present value, and now it’s only $7.8 trillion net present value. That’s a little cheaper, but it’s still a national nightmare, because Bruce Bartlett, the Reagan economist,
has said that this was perhaps the worst bill ever passed in American history.

So a balance sheet, I think, helps get rid of some of the glibness. Just the flow statement, people may or may not get it, it may or may not give you the absolute problem, which I think is so important to grasp. the latest stimulus bill, nearly a trillion dollars, and the headlines all over America, the largest bill ever passed by Congress. Well, it’s only an eighth the size of Medicare Part D. Hello?

I just had a discussion with one of Dick Cheney’s top aides yesterday. He had no idea that they’d passed a bill in the Bush era that was eight times larger. There was no financial crisis in 2003. This was just expanding an existing entitlement program.

When 75 percent of seniors already had some sort of drug benefit, the Wall Street Journal publicized that only one dollar out of every 16 would even help seniors buy drugs that they could not otherwise afford. This is astonishing, and that bill was eight times more expensive. We have to get a handle on this, because you know how feeble Congressional scoring is. We only had a tiny glimpse, and then it turned out that we couldn’t rely on
those numbers.

I think these are very valuable numbers. It helps people put it in perspective, so that hopefully next time we consider one of these dramatic expansions, we’ll be a little more prudent, or at least have a funding mechanism to be paired with it. Otherwise, you know, people are saying, you know, que sera, que sera, it will all be fine, what, me worry. This is the Alfred E. Neumann approach to budgeting. It’s just not responsible.

So let’s have different paths to truth. And I would suggest that balance sheets are elemental for most American business. The most common question I get, well, how do you value your assets? And I say, hey, Yosemite is priceless, Yellowstone is priceless. But let’s put a magnificent value on all those things, we’re still in the hole.

Just because assets are harder to value, with liabilities are more tangible. Albert Einstein wrote the most powerful force on earth is not nuclear power, it’s compound interest.

[Laughter]

MR. COOPER: Our people get that back home. They’re feeling what it’s like to be a debtor. And they
want this to be a strong country, not a weak one. I think in the interest of transparency, we should do everything possible to lay out as many paths to the truth as possible. I started off my statement as saying, there’s no perfect accounting, just the ability to account for human capital is an impossible task. But that shouldn’t keep us from trying to improve our methods every year, and we are getting better. We’ve made dramatic progress. The financial statement’s gotten so much better. And one day we’ll have a breakthrough and one day the public will be paying attention. And I’ll be you they’re starting to pay attention now. Because we’re discovering they didn’t understand their own mortgage. But now they’re interested in that and the national mortgage. So this is a teachable moment. So now more than ever, I think we’ve got to be optimistic about this.

People are smarter than you give them credit for. But we have to give them the tools for increasing their knowledge.

MR. ALLEN: Jeannette?

MS. FRANZEL: My question is probably a slight twist here on the same question. Some of the themes we’ve discussed today is that we don’t want to do anything that
will unintentionally cause policy decisions to sort of go one way or another, especially in the school of public opinion. And of course, if there is reform in the future, we don’t want to sort of lock some things out there.

But you did mention that citizens are really considering some of these programs to be exalted programs. This board is deliberating how to get objective, reliable and neutral information out to people. What are your thoughts on what do people need to know? How can this board facilitate really getting the information out there that’s needed, so that when reform maybe is being considered or necessary, you have an informed constituency and that would make your job easier.

MR. COOPER: I’m going to refer to the physician’s rule of do no harm. And there are two terribly damaging things that are happening today. One is the Social Security letter that goes out to everyone. The reason it’s so damaging is it mentions a cash figure for expectations, like $2,300 a month, something like that, and gives your earnings history. The power of those numerals completely grounds out any cautionary language about the money perhaps not being available.

It’s a little bit like drug advertising on TV,
you see the beautiful people and you don’t hear that it may cause hemorrhaging, nausea, all these horrible things. You only see the beautiful people.

I talk about behavioral economics in my statement. There have been a lot of advances in that field, helping people understand how other people understand things. And it’s very important we realize we’re dealing with human beings here.

So the Social Security letter is one terribly misleading thing. The other thing is the Medicare trustees report. Because I think it’s on the dead last page of that document where you get to your actuaries letter. It says basically, by the way, the preceding assumes a 41 percent cut in doctor pay. That basically means the preceding report is a joke. Because Congress has never allowed that to happen. So if you have an insolvency date of 2018 or something like that, and then Congress is deliberately going to not cut physician pay, and you know that in advance, well, then, the insolvency date is probably a little bit earlier than 2017. The press continually relies on the number in the report.

Again, I couldn’t get my business students to read to the last page of that document. I challenged them,
I said, look, there’s buried treasure in here, find it.
Pay more attention to it.

MR. ALLEN: Extra credit, you have to give them extra credit.

[Laughter.]

MR. JACKSON: They were looking for something positive, though, in the treasure. Not there’s no way this will happen.

MR. COOPER: I should have said booby traps.

MR. ALLEN: Right. Hal?

MR. STEINBERG: Talking about using financial statements to motivate and stimulate, you said you’re not familiar with the statement of fiscal sustainability that was proposed. Actually, we have another name for it, too, long-term fiscal projections of the U.S. Government. So that gets away from the sustainability name.

But basically what it does is it presents the present value of the fiscal gap over a 75-year period of time. And the number’s pretty high, it’s close to David Walker’s number, $53 trillion or so.

I continually have the same concern that you have, that Congress doesn’t act until a crisis occurs. People can look at that, see 75 years and the crisis
[indiscernible] legitimate [indiscernible] years. I would ask if I could that if you get a chance to become familiar with this proposal that we have out also that we could get some thoughts from you about how we can tweak that statement format to try and get a better sense of urgency in the people that read it.

MR. COOPER: It would be an honor to try to figure it out. I’m not sure I’m capable of it. But like our friend Jagadeesh, I think his testimony prefers the open group. I have seen my colleagues game so much of the time period involved, we can do it with five years, we can do it with ten years, we can even do it with 75 years.

But on the other hand, an infinite time horizon seems like that’s an absurd term, too. So I prefer to say lifetime of today’s women, because life expectancy today for women is like 86 years. That actually would cover enough of the problem so you’re not limited to the arbitrary 75 years. But I’d be delighted to look into it and try to [indiscernible].

MR. ALLEN: Let me follow up with a question conceptually based on what Hal is talking about and try and get a reaction of how you think your colleague would react. As you’re looking at that statement, is that the chart or
the statement you’re looking at right now?

MR. STEINBERG: The statement.

MR. ALLEN: Okay, so you’re looking at the statement. What that statement is doing, and if you need to go, just get up and leave. That’s fine. What that statement is doing, Congressman, is looking ahead and saying, okay, if today you look into the future 75 years, all the money that’s going to flow in for these programs and all the money that’s going to flow out, this sort of gives you an idea of the difference between the two. Some of us believe that’s an incredibly important bit of information.

What that does not show is that I have any obligation today, that any event has taken place up to this point that’s created an obligation for me. So it’s a cash flow projection looking forward. Is there a belief, do you believe that that document will make them respond, or if you want to turn to the, there’s a chart right after that, the graph, it really shows that I don’t really have a problem today. In other words, when I’m focusing on cash flows, there isn’t that big of a difference between inflows and outflows. I’ve got to go out a number of years before I see a difference between inflows and outflows.
So in my mind, is that helpful for getting Congress to act, or is that in essence resolved the other way, that they would say, well, you know, if I don’t have a cash flow problem for 10 years, I’ve got 10 years before I have to act on that. I guess I would be [indiscernible] to have you respond to that.

MR. COOPER: I would put this in the category of, it looks interesting and informative, and let’s have this as one of several ways of getting Congressional attention, but not the only way. This is not a traditional small business format. And I think that personally that by trying to match receipts with spending, you probably put too much confidence on the receipts side. Because I see more people who are resistant to paying taxes and upset that they’re not getting an equivalent benefit. Whereas we know that they’re not going to want to see a benefit reduction. So that’s a firmer number in my mind.

And as you’re aware, probably our most regressive and anti-jobs tax in America is the payroll tax. So if you’re going to rely on a tax mechanism, this is not the best way, if we want to promote job growth.

That’s the thing about accounting, it’s like looking at the facets of a diamond, you see different
elements, different approaches. And I’m not saying that
one is superior to another, this seems like a good
theoretical advance. But you can’t have enough, well, we
need to work on several approaches to appeal to different
folks. Because usually if someone in Congress does come
from a background that’s not [indiscernible] a CPA
background at a major firm, it’s a small business
background. And usually if they’re acquainted with
anything financially, it’s a small business financial
statement.

So to the extent to which we can responsibly put
numbers in that format, without unduly stressing your
document, that’s the way I think you can get the most
success with the average Rotarian back home. And that’s my
target audience, both for accounting standards and for
what’s actually on the document. Because there’s an
instant grasp. There’s no barrier of comprehension. We
can massage the numbers. This looks interesting, but it
takes a little while to wrap your head around it and say,
all right.

MS. FRANZEL:L I wonder if you could look at page
57, because we’re actually, just keep turning that, because
we’re also looking at adding graphics to this. I wondered
if a graph like that is helpful, if it may be more
impactful.

MR. COOPER: Well, I’ve used graphs like this
before and I find that I have to add to it, oh, by the way, there will be zero dollars left for national defense, or whatever you have above the revenue line. See, implicitly what many people are planning on is a dramatic increase in the revenue line. Simply put, the most fundamental policy question we face in the next five or ten years is whether we stick with American levels of taxation, 18.4 percent on average for 50 years, or whether we move to European taxation. And temporarily, at least, there will be a surge on the revenue side and the spending side. But the question is whether that’s temporary, just for a stimulus, or whether it is the Europeanization of the American economy.

I believe in American exceptionalism. I think we’ve always been different. I think we pride ourselves in our difference. I think it’s going to be perilous for any political party that advocates a Europeanization. Because while the benefits may seem nice, somehow that’s not part of the American character.

I could be completely wrong. But I think
fundamentally that’s what so many of these budget debates are about. Are you comfortable with the Federal Government taking a much bigger bite than 18.4 percent? Most folks I know back home really aren’t excited about that prospect.

MR. JACKSON: I’ve got neighbors that tell me, I live out of town, and I’ve got neighbors that are irate and every word out of their mouth is socialism. They are just, I mean, they’re ready to -- I’ve never seen such temperament in my life. From the barber shop to my next-door neighbor.

MR. COOPER: It’s particularly ironic in a place like Tennessee, because what’s TVA? It’s a socialist utility. But people still --

MR. JACKSON: They don’t remember when it was created. They’re drawing Social Security.

MR. ALLEN: There are people who work for TVA who feel that’s [indiscernible].

Go ahead.

MR. STEINBERG: I just had a thought, and let me throw it out. I’m not saying that I believe it. But we heard this morning David Walker say that his documents come from our financial statement and the reports. Maybe we should accept the fact that the document that we put out,
we, the Treasury, based upon our standards, is not going to be understood or even read by the American people, and that what we’ve got to do is put out documents that provide the information and then expect that there’s going to be groups like Concord Coalition and Joe DioGuardi’s group and other groups like that that have much better skills than we do about putting information into a form that the American people will understand.

MR. COOPER: That may be the case, because we always have all of our technical jargon and disclosures and everything else to go with it.

Go ahead, last question.

MR. FONTENROSE: Thank you for coming today, Congressman. My question to you is, should we be gearing this toward the Rotarian, or your colleagues?

MR. COOPER: Well, if you get the Rotarian, you get my colleagues.

[Laughter, simultaneous conversations.]

MR. FONTENROSE: But you just said your colleagues take all these numbers and they game them.

MR. COOPER: Yes, but their area of operation is kind of limited by what average civic-minded people back home, you don’t have to belong to a club, but you have to
care about your community. These are the good, solid, upstanding people of America. And they’re usually involved with some small business or another, they know what it’s like to make payroll. They’re a little bit admiring of their Government and a little bit distrustful.

I use the phrase in my document, and we use it all the time in politics, you’ve got to put the cookies on a low shelf. Don’t make it hard for people to access this information.

It really happens on a lot of levels. The best service you could do would be to get the financial report as is distributed to every public library in America. That would be a huge achievement. Because you’ve already done the fabulous work of that. Now you’re talking about kind of gilding the lily, make it even better. There’s enough information in that for people to take action. But you’re working now commendably to try to make it even better. I welcome that. There are going to be nuances in these programs that we discover. Hopefully we’ll be able to wrap our arms around Medicaid, because as you’re fine tuning this, don’t forget the $30 trillion.

MR. ALLEN: We’ve left that out.

MR. COOPER: It’s kind of like the Moynihan
Social Security report, which was brilliant. And then if
you read the report, it says like on page 124, oh, by the
way, we neglected to look at the disability and life
aspects of Social Security. It’s really a triple benefit,
and then [indiscernible] to the one portion. Yet everyone
cites that report as like authoritative, when it’s two-
thirds incomplete.

The biggest questions that we deal with, no one
[indiscernible] the stimulus bill had dramatic expansion in
Medicaid. And it’s already one of the most complex
statutes ever devised by the mind of man, plus you have the
50-State federalization.

So it would be bigger today than Medicare, if it
weren’t for the Medicare Part D benefit. This grows like
kudzu, and it’s helping a world of people. I’m not against
this program. This is a good program. But we have to
understand it. And I teach this at Vanderbilt, have for 12
years. It is very difficult to understand.

So when it comes to wrapping our arms around
Government, we don’t’ begin, so many people only, for
example, with Medicaid, only look at the Federal
contribution. They don’t look at the State match. They
don’t look at the State gaming of the Federal match.
[Laughter].

MR. COOPER: It’s almost like again behavioral economics. For game theory, you have to go back and forth several iterations before you can get a clue. I think I can prove to you that some States that are supposed to get a two for one match, in fact, it’s like fourteen to one. In the Massachusetts health care experiment today, it’s primarily funded by Medicaid. Yet they’re getting credit for having reformed --

[Simultaneous conversations.]

MR. JACKSON: He just looks guilty back there.

[Laughter.]

MR. COOPER: At least we should know what we’re doing. Because this is basic confidence I’m talking about, not fancy stuff. And in so many basic ways our Government has gotten so complex that it’s almost impossible, unless you have 12 degrees and an infinite amount of time, to understand the basics.

I’m not talking about obscure programs. I used to represent a lot of black lung folks, and they’re fine people. But these are Medicare, Medicaid, Social Security, these are the giants that should be so well understood that we know their behavior. And today we really don’t.
MR. ALLEN: Thank you very much. We do appreciate that.

MR. COOPER: Thank you, Chairman.

MR. ALLEN: We’ll close the meeting. We have a steering committee meeting [indiscernible]. Thanks, everyone. Remember, in the morning we have [indiscernible].

When I met with the staff, we made a decision that if we can’t keep both documents going in the planned time, which was very highly probable to me, we are still going to go with the projected and the sustainability report. So please come prepared to go through all of the questions tomorrow on the sustainability report. If we have time, we’ll move on to the social insurance issue. But if we don’t, we’re still going to go through [indiscernible]. So come prepared for social insurance [indiscernible].

MS. FLEETWOOD: Also, I handed out to everybody, because we had so many conversations, I want people to know that this is actually published by the Treasury Department. It goes with the financial report. It gives you a brief [indiscernible] of the major points that you might see, and it relates to sustainability.
[Whereupon, at 4:25 p.m., the meeting was adjourned.]