Contact: Mark Primoff
845-758-7749
primoff@bard.edu

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PROPOSED FEDERAL ACCOUNTING GUIDELINES POSE UNNECESSARY THREAT TO SOCIAL SECURITY AND MEDICARE, NEW LEVY STUDY SAYS

ANNANDALE-ON-HUDSON, N.Y.—As the U.S. economy faces the prospect of its worst downturn since the Great Depression and many Americans have seen the value of their retirement plans plummet, the financial integrity of social programs like Medicare and Social Security is becoming even more crucial. In spite of this, critics continue to try to undermine these vital programs, this time in the guise of new accounting guidelines proposed by the Federal Accounting Standards Advisory Board (FASAB), a new study from The Levy Economics Institute of Bard College shows. The FASAB has issued two "exposure drafts" titled "Comprehensive Long-Term Projections for the U.S. Government" and "Accounting for Social Insurance, Revised" that recommend subjecting the entire federal budget to accounting methods that purport to calculate the debt burden our generation will leave for future generations. The Levy paper argues that such "intergenerational accounting" is wrongheaded, and that it threatens to weaken vital programs that are the mainstays of life security for America's elderly.

In their new public policy brief, *The Case Against Intergenerational Accounting: The Accounting Campaign Against Social Security and Medicare*, Levy Senior Scholars James K. Galbraith and L. Randall Wray, and Warren Mosler of the Valance Company contend that government should not be subject to the same accounting and financial constraints that apply to private households or business firms because it operates in the public interest, and there is no evidence, nor any economic theory, behind the proposition that the government's spending need match receipts. The scholars argue that intergenerational accounting is deeply flawed. They take particular issue with the FASAB concern that the federal government operate within the "budgetary resources" available to it. Specifically, the exposure drafts are concerned that budgetary resources be sufficient to "sustain public services and meet obligations as they come due." The authors argue that the drafts do not

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define what “budgetary resources” means. “The government does not need tax revenue sufficient to match spending in order to ‘sustain public services and meet obligations as they come due,’” they write, stressing that “the government almost never has 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 producing a depression or a recession.) This is why we have a national debt to begin with. Yet the U.S. federal government has never, in 233 years of operation, lacked for ‘budgetary resources’ sufficient to ‘sustain public services and meet obligations as they come due.’ This is also obvious, insofar as the federal government has never defaulted on its obligations, including making all interest payments on its debt.”

Furthermore, Galbraith, Wray, and Mosler disagree with the FASAB guidelines treating Social Security obligations strictly as a liability. “That same Social Security benefit liability is, of course, an asset to the public,” they write. “The Social Security wealth of the current population is just as real as the liabilities that support it. Yet nowhere is this Social Security wealth reported or even remarked on. Put another way, a transfer program from one group of citizens to another, via the government or otherwise, merely transfers resources. It does not increase or diminish them. This is an economic reality, and any financial statement for ‘the nation’ should reflect it.” The authors say that the most important factors determining future real burdens are demographics, technology, and economic growth, the last of which the FASAB disregards completely. “One cannot assess the ‘impact on the country of the government’s operations and investments’ without assessing the *economic effects* of such operations and investments,” the authors write. “If, for instance, a ‘stimulus bill’ produces a higher rate of growth and lower rate of unemployment than would otherwise be the case, then that is surely an ‘impact on the country of the government’s operations and investments.’ . . . The actions of the government sector taken as a whole cannot be assessed in isolation from their consequences for the nongovernment sector and the performance of the economy.”

To conclude, the authors dismiss as hogwash long-term projections showing an “unfunded liability” amounting to tens of trillions of dollars. “If worse comes to the worst, so that we have fewer workers per beneficiary and no increase in productivity in 2050, then taxes will have to be raised or benefits cut—or some combination of the two—to apportion the pain of lower living standards,” they write. “But it is best left to voters in 2050 to make such a decision. In short, it serves no useful purpose to project financial shortfalls for Social Security and Medicare into a far distant future, and no purpose whatever to revise those programs today on the basis of such projections.”

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