

Deficits, the national debt & government accounting



Understanding how our government uses deficits, the national debt and accounting systems to represent and misrepresent legislative information.

Deficits, the National Debt and Cash Basis Accounting

The reported budget deficit or reported total deficit for 2008 was \$455 billion dollars yet the national debt rose by \$1,017 billion dollars at the same time. Why did the national debt grow \$562 billion more than the deficit?

The term **deficit** refers to the portion of actual federal spending that has been spent since the first of October (start of the government's accounting or fiscal year) and that was unfunded (paid for by borrowing). The deficit only includes actual payments made and does not reflect either future requirements or future needs to pay more.

A **budget deficit** is the spending since October first that is included in an administration's annual budget. However the budget is not the government's whole economic story.

Besides **on-budget** items (those items included in the budget), there are also **off-budget** items (items not included in the budget). Current off-budget items include the Iraq and Afghanistan conflicts, the postal service, the social security trust funds and medicare.

At the end of the Bush Presidency, the total reported deficit was \$455 billion dollars. However, they actually spent \$638 billion, the budget deficit. The total reported deficit was achieved by borrowing surplus social security funds (\$183 billion dollars) to make the budget deficit look smaller.

However, the \$183 billion is still part of the debt because it was spent on reducing the budget deficit. The rest of the missing \$562 billion comes from the off-balance sheet costs for the war

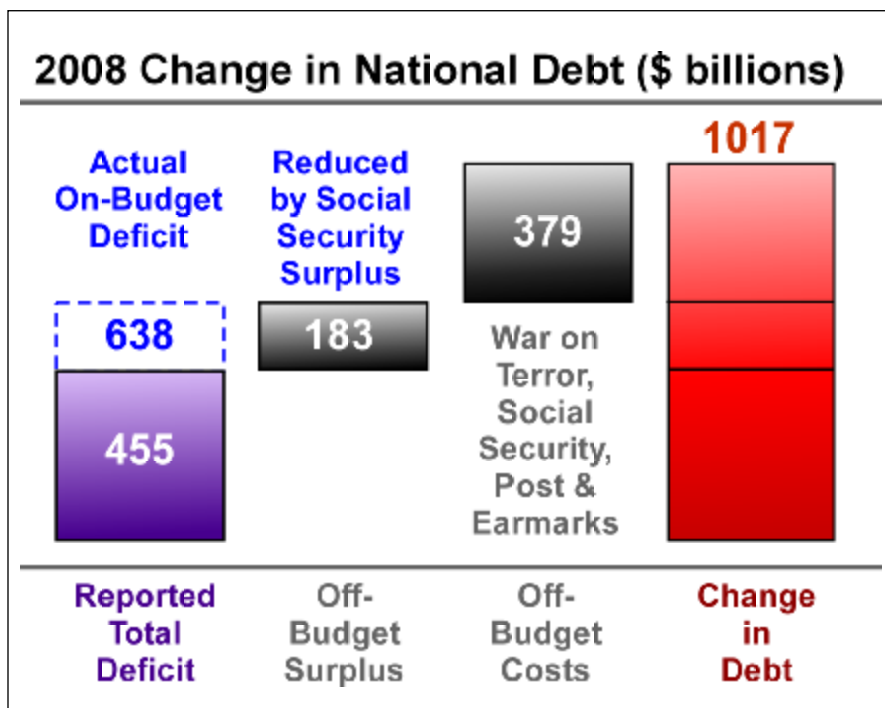
on terror, etc. Deficits when added together form the **national debt** that today is \$12,150,000,000,000.00.

Cash Basis Accounting

Congress and Presidents use a form of accounting that is illegal for any business that sells one million dollars or more of physical goods from an inventory, any business that sells more than \$5 million dollars and businesses publicly owned by stockholders. It is called **cash basis accounting**. Cash basis accounting is, literally, a total of cash that has been actually received and spent at a specific point in time. Because our government uses cash basis accounting, the deficit and debt numbers include no indication of other liabilities, money owed or other legal funding requirements in the future, even later in the same year. Even off-budget items are accounted for using cash-basis methods.

The Government Accountability Office (GAO) has produced a yearly document that uses **accrual basis accounting** and gives an indication of the present value of future money to be paid or received. However, not one Comptroller General of the United States, the government auditor, has ever signed these financial statements as correct. In fact, one year the audit bluntly said the numbers were so bad they were unusable for decision making by either the government or citizens.

Everyone but our government are required to use GAAP, Generally Acceptable Accounting Principles, to make financial statements because every reader of a GAAP document knows what the numbers mean.



Unfunded Debt and Liability.

Since, government's financial statements don't include future liabilities, the real question is how much don't we know? The CEO of the Dallas Federal Reserve Bank sets the number at more than \$100 trillion dollars:

\$100,000,000,000,000.00

and that's not including what we call the national debt. That number is equal to spending \$20,000 a year since the Earth was created five billion years ago or about \$20,000,000,000 a year since Noah and the flood. It is also equal to four times the value of all products sold and all money earned in every way by everybody in the whole world during a year, or 400% of the world GDP.

This year's current present value of that future cash need is set at 52,000,000,000,000 by the GAO. This is also about 100% of the world's GDP and 375% the GDP of the United States. It includes social security, and medicare A,B and D. It does not include the Freddy Mac -Fannie May receivership, the Troubled Asset recovery Program (TARP), the first or second stimulus bills, the car industry bailout, mortgage assistance, Obama's healthcare reform,

cap and trade or any of the other endless spending bills.

Consequences

The last Comptroller General of the United States, David Walker, estimated that to pay down the government's debt created before Obama we must:

- 1) Raise all federal taxes 200%, or
- 2) Cut all federal spending 60%.

The Current Financial Burden

PER PERSON	\$175,000
PER WORKER	\$410,000
PER HOUSEHOLD	\$455,000

The Interest on the Debt

PER SECOND	\$28,500
PER HOUR	\$10,000,000
PER DAY	\$2,500,000,000
PER YEAR	\$900,000,000,000

Yes, that's correct more than \$900 billion in interest is added each year. That is more than the defense budget. In 2008, the current net worth of all American households was about \$58.6 trillion dollars. The present value of our unfunded liabilities, \$52.7 trillion dollars, is equal to 90% of all the property owned by American citizens. If the average working citizen spent \$1,100 dollars a month paying off their portion of the debt, it would only take 80 years if federal interest rates remain

their long term average of 3% per year.

Economic Growth Won't Help

Some argue that economic growth will allow us to escape this fate. However, we can't outgrow the cost because it would require 75 years or more of GDP growth above 10% to consume the debt (the average growth in the 1990s was 3.2% and that was a very high growth rate).

Vista Tea Party Patriots

Help us stop this madness. These endless spending bills are created by those who don't pay for the costs, passed by those who don't read the bills they vote for and are enforced by public employees whose bureaucracy's are created and whose salaries are determined by the same Congress who are enslaving us financially.

name _____

phone _____

www.vistateaparty patriots.com

www.our-republic.net

facebook: Vista Tea Party Patriots

760-630-3332

How this was used to sell the healthcare reform bill...

President Obama said he won't sign a healthcare bill that is not deficit neutral.

So Harry Reid played the system. By making the healthcare bill start paying out in 2013, the money gathered in years 2009 through 2013 will reduce the deficit on the books but not in fact.

The growth in spending after 2013 takes three years to reach full speed, so 2014 to 2017 also have reduced influence on the deficit and are partially compensated for by the accumulated funds that reduced the deficit and no longer exist.

A huge portion of the remaining cost of the bill is paid for by a \$500 billion dollar reduction in Medicare advantage. Unfortunately, Medicare advantage is an unfunded off-budget

liability. So the money for the reduction of the Healthcare reform bill is actually imaginary.

That means that real on-budget healthcare bill costs are being made deficit neutral by being paid for with off-budget dollars that not only don't exist, but are typically double booked. The executives of Enron are in jail for a very similar crime.

To summarize:

The real healthcare bill costs for a full ten years (2017-2027) are closer to \$1,500 billion not \$896 billion. They moved the payment start date backwards to hide the real cost.

THE HEALTHCARE BILL IS NOT DEBT NEUTRAL because the money behind the IOUs and the medicare funds used to make the bill deficit neutral don't exist and are off-budget unfunded

liabilities. The government will still have to borrow that money to pay for this healthcare bill at some point and that will add to the national debt, even if its hidden from the deficit by Senator Ried's games.

You have been lied to.

Sources: GAO/CBO and others, all individual data references are available at www.our-republic.net.

©2010 Kenneth Happel, VTTP

revision 01052010