



Standards Watch

FASAB Takes a Closer Look at Fiscal Sustainability

By: Tom L. Allen, CPA

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One of the Federal Accounting Standards Advisory Board's (FASAB) federal financial reporting objectives—the stewardship objective—includes enabling readers to determine whether future budgetary resources will likely be sufficient to sustain public services and to meet obligations as they come due. On February 16, 2007, I announced the formation of a task force to develop recommendations for reporting on the fiscal sustainability of the federal government's policies. First and foremost, I would like to thank each of our task force members for lending their time, knowledge and unique perspectives to the sustainability task force:

- **Joseph Antos**, Wilson H. Taylor Scholar in Health Care and Retirement Policy, American Enterprise Institute
- **James Duggan**, Senior Economic Advisor, Office of Economic Policy, U.S. Department of the Treasury
- **Richard Foster**, Chief Actuary, Centers for Medicare and Medicaid Services, U.S. Department of Health and Human Services
- **Jagadeesh Gokhale**, Senior Fellow, Cato Institute
- **Stephen Goss**, Chief Actuary, U.S. Social Security Administration
- **Patrick Locke**, Chief, Budget Analysis Branch, U.S. Office of Management and Budget
- **Thomas McCool**, Director, Center for Economics, U.S. Government Accountability Office

- **Benjamin R. Page**, Principal Analyst, Macroeconomic Analysis Division, Congressional Budget Office

- **Allen Schick**, Visiting Fellow in Governance Studies, Brookings Institution

- **Eugene Steuerle**, Co-director, Urban-Brookings Tax Policy Center; Senior Fellow, Urban Institute.

The task force members were selected carefully to ensure that we have input from those experienced with economic projections, development of key indicators and federal budgeting. I am pleased to have such an esteemed group of technical experts helping FASAB take a closer look at fiscal sustainability. The task force held its first meeting on April 5, 2007, kicking off a worthwhile debate on how best to enhance the public's understanding of long-term fiscal issues through federal financial reporting.

One of the challenges that needs to be addressed is the fact that sustainability means different things to different people. As one author put it, "The definition of sustainability depends on who is speaking."¹ The Merriam-Webster online definition of sustainability is "capable of being sustained." The link to "sustained" brings up definitions such as "keep up," "prolong," "suffer," "undergo" and "to carry or withstand." These definitions do not invoke positive thoughts of sustainability.

The Brundtland Commission, led by the former Norwegian Prime Minister Gro Harlem Brundtland, defined sustainable as "meets the needs of the present without compromising the ability of future generations to meet their own needs."

In the United Kingdom's December 2006 annual Long-Term Public Finance Report, Her Majesty's Treasury writes, "There are many possible definitions of sustainability. One definition is that a government should be able to meet its obligations if and when they arise in the future. Sustainability will therefore also depend on a government's future revenue (with which it might be able to meet its obligations) and the timing of the future obligations."²

In a paper published by the University of New England School of Economics in Australia, the authors state, "Fiscal sustainability and intergenerational equity are key concepts in the measurement of long-term fiscal balance. Turning first to fiscal sustainability, this concept refers, in general terms, to a balanced budget on average over the very long term, but is defined in various ways."³

These are just a few examples of the hundreds of ways that sustainability has been defined. There are at least as many different ways to define sustainability as there are ways to report on sustainability. Agreeing on how to report something so broad and of such magnitude is a challenging task. The task force reached some preliminary consensus at its April meeting on the following points:

- The group does not believe there is an accepted framework for determining what is sustainable for a national government. It is easier to identify unsustainable paths than to say with precision what is sustainable. Therefore, the group consensus was to proceed without developing a framework due to the challenges of

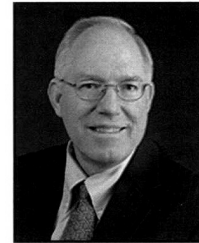
identifying the point at which unsustainable paths become sustainable and the general consensus around the basic need to project fiscal results.

- The group strongly emphasized the importance of narrative to accompany any data presented. The group suggested that the narrative could include such things as an explanation of the immediacy/urgency of the issue because year-by-year data implies that the problem arises in the future, an explanation of the trade-offs between mandatory and discretionary spending, the loss of flexibility for future policymakers as a result of the projected increase in mandatory spending; and an acknowledgment of the inherent uncertainty in projections.
- The group agreed that charts showing period-by-period projections of receipts and outlays by category would be essential. The group consensus was to show these in reference to the size of the economy (Gross Domestic Product).
- The group agreed that it is critical to show trends (past, present and whenever appropriate, future projections).
- The group agreed that it is critical to present information in a way that is understandable and meaningful to citizens and citizen intermediaries such as the media.

These areas of consensus are a start, but much remains to be done. Members of the group raised interesting ideas that must be developed and explored. Many of the members endorse summary measures such as the fiscal gap; others are interested in trade-offs between programs and generations. There was strong disagreement about the appro-

priate time period for projections, for example, 75-year, infinite horizon, etc. In addition, the group will consider acceptable approaches to relating future spending to future individuals, households or workers.

In addition to the technical experts currently serving on the task force, the board plans to expand the task force to include advisers on communications. The additional task force members, representing Congress and academia, will be asked to advise the board on how to make financial statement reporting on fiscal sustainability understandable and meaningful to readers. Ideally, the final recommendation will include both recommended content and options for ensuring that the information is communicated effectively. I look forward to the results of the task force endeavors so that the board may use this feedback to recommend meaningful and useful sustainability reporting requirements.



Tom L. Allen, CPA, is the Chairman of the Federal Accounting Standards Advisory Board. Prior to joining FASAB, Allen served as the Chairman of the Governmental Accounting

Standards Board and the State Auditor of Utah.

End Notes

1. Andy Duncan, "The definition of sustainability depends on who is speaking," Oregon State University Extension Service, *Looking for Oregon's Future: What is Sustainability?*
2. Her Majesty's Treasury, "Long-term Public Finance Report: An Analysis of Fiscal Sustainability," December 2006; p. 19.
3. Coombs, G. and Dollery, B., "The Ageing of Australia: Fiscal Sustainability, Intergenerational Equity and Inter-Temporal Fiscal Balance," University of New England, School of Economics, Australia; 2004; p. 16.