



Standards Watch

The Fiscal Report Card

By: Tom L. Allen, CPA

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"In all that lies ahead we must never forget that our financial system is built on the hard work of our citizens; it is built on the savings of our citizens—and perhaps most importantly, our financial system depends on the trust and confidence of our citizens."

— Remarks by Former Secretary of the Treasury Henry M. Paulson Jr. at The Ronald Reagan Presidential Library, November 20, 2008

Late in 2008 we saw an unprecedented change in our financial system; that change has resulted in taxpayer funds being used to provide capital to support the businesses comprising our financial system. Given the dramatic flow of capital from taxpayers to financial and other institutions, it is imperative that the federal government not underestimate the importance of the trust and confidence of our citizens. Within days of the first infusion of capital to financial institutions, citizens began asking how taxpayer dollars are being spent. It seems to me that 'an accounting' is in order and not just by the financial institutions themselves.

Fortunately, we have a government that is accountable. The government provides public audited annual reports that are improving over time. The challenge is alerting citizens to that fact and ensuring that the reports are understandable to citizens.

Not too long ago, the nation received a little-noticed report card—the Consolidated Financial Report of the United States Government (CFR). This report card is becoming increasingly important. Citizens should be able to use it to find

comprehensible information about the cost and effectiveness of programs such as the Troubled Asset Relief Program (TARP). Our nation also has creditors—rating agencies have increasingly noted that some day soon the debt issued by the United States may no longer be considered risk free.

My hope is that citizens and creditors come to view the CFR as an important annual report card. It should be the best place to find out how well the government did each year—both financial and non-financial performance measures—and where the government really stands at the end of each year.

The Federal Accounting Standards Advisory Board (FASAB) plays an important role in helping the CFR become the best report card available. The board is charged with developing standards that result in an accurate picture of the government's financial position and information that helps citizens assess the performance of programs. The budget is a useful yardstick, but it was developed with different goals in mind. As a result, the budget does not include a complete accounting of the resources the government commands or the

obligations that the government creates through arrangements that do not immediately "count" for budgetary accounting purposes; for example, obligations to provide federal retirees with health benefits. With some exceptions, the budget focuses on cash flows.

The CFR provides not only the budget results for the year but also information about the assets entrusted to and the liabilities incurred by the government on behalf of the taxpayers. By carefully tracking these assets and liabilities, accountants are able to calculate the full cost of programs. These costs include not just the cash spent but also the cost arising from consuming assets or incurring liabilities. The board has work to do in this area—currently, natural resources are excluded from the reported assets and we have not settled on the appropriate measure of the annual cost of social insurance programs such as Social Security. Resolving these issues—and providing for a way to measure the cost of the TARP and other relief activities—would ensure a more complete measure of the cost of programs provided to the taxpayer during the period.

The board also recognizes that a longer perspective is needed regarding the fiscal affairs of the government. Few of us would commit to new initiatives at home—such as funding college for our children—without considering the price tag against our expected income and our current financial position. The government enters into long-term commitments when it creates or enhances programs such as Social Security and Medicare. Such programs consume an increasing share of federal revenues. Citizens need to consider the long-term implications of all programs and tax policies when judging the performance of their elected officials. The board has proposed reporting of long-term fiscal projections in the CFR. Through this annual reporting, citizens would have information about the fiscal gap¹ expected based on the current policies of the government as well as how and why the gap changed during the year.

As we look from one administration to the next and from one generation to the next, a fiscal report card of that administration or generation is essential. Few of us would take on debt that binds our children and grandchildren, yet we have not as a nation demonstrated the will necessary to prevent our government from instituting policies that do just that. Some report that our current public debt is reasonable in relation to gross domestic product (GDP). However, this ignores the many commitments funded through liabilities other than public debt as well as the commitments not counted as “liabilities” but counted on by our citizens.

Our annual report card should serve as a fiscal report card that alerts every citizen to the impact that today’s policies have on future generations. That report card should be complete, consistent, understandable and relevant. I hope you will participate in the process of developing standards to hold your government accountable and help alert your friends and family to the annual report card.

End Notes

1. The fiscal gap is the change in spending and/or revenue that would be necessary to maintain public debt at or below a target percentage of GDP.



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