



Written by [Michael Tennant](#) on March 5, 2012

Feds' Creative Accounting Masks Trillions in Unfunded Liabilities

A private institution that tried to get away with such accounting practices would be facing severe penalties. The Financial Accounting Standards Board, charged by the government with setting private-sector accounting standards, requires companies to account for the current cost of their retirement promises in their financial reports.

In 1992, the year the rule went into effect, General Motors recorded a charge for \$33 billion, which came to 29 percent of the company's revenue — “well above the 5 percent threshold that accountants commonly use to gauge whether a liability is material,” writes Lawrence. With Americans' increasing life spans and healthcare costs, these expenses became so enormous that they were, he adds, “a major factor in GM filing for bankruptcy” in 2009.



Washington, meanwhile, has a liability of \$33.8 trillion for Social Security and Medicare — “more than 1,400 percent of the federal government's 2011 revenue,” Lawrence calculates. Since this makes the GM of 2009 look like a model of financial stability by comparison, the Treasury does not include the liability in the main body of its annual financial report, preferring to bury the gory details in the appendices, thereby hiding the true costs of these programs. “This decision,” observes Lawrence, “is embraced by virtually every one of our elected leaders and accepted by virtually all of our journalists.”

How does the government get away with not reporting liabilities that it requires private companies to report? It simply exempts itself from those rules. Thus, while GM and other corporations, operating under accrual-based accounting, must account for retirement promises, “the government follows ‘obligation-based’ accounting standards, which require the recognition of future promises not when they become material but only when they are legally binding,” Lawrence explains.

Essentially, even though the government has promised \$33.8 trillion worth of benefits to current and future retirees, it only has to report those liabilities when the bills come due because it always has the option of reducing or terminating them prior to that time.

That Medicare is subject to the whims of politicians is quite obvious. The terms of Medicare coverage change from time to time, and projected savings from lower future payments to healthcare providers are one of the key means by which ObamaCare allegedly will reduce the deficit in the coming years.

Less well known is that Social Security is just as dependent on politicians' good graces for its continuation. Although many people still cling to the illusion that the taxes they pay into the program



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during their working years guarantee them a pension in their retirement, the fact is that the government is under absolutely no obligation to pay one thin dime in retirement benefits to anyone, regardless of the amount of taxes he has paid into the system. As the Supreme Court put it in a 1960 ruling (*Flemming v. Nestor*), the “entitlement to Social Security benefits is not a contractual right” and can be modified or rescinded at will. This, too, should be clear from the number times the tax rate, retirement age, and other terms of the program have changed over the years.

“Is it acceptable,” asks Lawrence, “that our leaders are able to promise trillions of dollars to the voters but do not have to recognize the cost because their promises can be rescinded?”

Americans “deserve a clear accounting and an honest discussion of how to fix the system,” he concludes. Certainly honest accounting is in order if only as a matter of principle. However, there is no way to “fix” these socialist systems short of repealing them, whether immediately or, as presidential aspirant Ron Paul has suggested, by giving younger people the chance to opt out of them, causing the programs to fold over time for lack of participation. Socialism always ends in bankruptcy (see, e.g., Greece) because the demand for benefits invariably outstrips the ability of the productive members of society to finance them. Truthful reporting of the government’s long-term liabilities would make this clear to all Americans. Then, perhaps, they would demand that their elected officials take action to wind down these unsustainable, unconstitutional programs before everyone is drowned by the onrushing flood of red ink.



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