

Commentary

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Federal accounting reform urgency

Like the fog that hid the massive iceberg in the path of the Titanic on that fateful night in 1913, Washington's woefully inadequate budget and accounting practices have obscured the sobering reality of our federal government's finances.

Experts in New York and Washington are beginning to notice the looming crisis and, I believe, we have to act quickly to avert a federal financial disaster of Titanic proportions.

Our true budget deficit for fiscal 2003 exceeded \$1 trillion, and our true national debt now exceeds \$20 trillion.

Washington still uses the hopelessly flawed and easily manipulated cash basis of accounting, even though it has mandated "accrual" accounting for every publicly traded corporation in America. (Accrual accounting recognizes expenses and liabilities when costs are incurred and when measurable commitments are made, not just when checks are written or funds are borrowed).

On the cash basis, the federal budget deficit for fiscal 2003 was \$400 billion, and the current national debt stands at \$6.8 trillion. But these are not the real numbers. Our true budget

deficit for fiscal 2003 exceeded \$1 trillion, and our true national debt now exceeds \$20 trillion.

Last April, Alan Greenspan publicly endorsed accrual accounting for the federal government, testifying that the fiscal 2002 deficit of \$158 billion was actually a deficit of \$365 billion on the widely respected accrual basis. Professor Howell Jackson of Harvard Law School recently wrote in the New York Times that this year's shortfall from Social Security alone would drive the fiscal 2003 budget deficit up to \$930 billion on the accrual basis.

Pete Peterson, chairman of the Federal Reserve Bank of New York, recently said national debt figures do not reflect "\$25 trillion of unfunded liabilities for Social Security and Medicare." He explained that 77 million Baby Boomers who will retire in the next 10 years have been "misled by politicians all their lives that this 'trust fund' is going to take care of them."

Ironically, Thomas Jefferson wrote more than 200 years ago that, "We might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them." Needless to say, this has yet to happen.

Today many politicians, lacking Jefferson's moral clarity, use campaign rhetoric as a substitute for good accounting to disguise the real cost of government programs. In my book, "Unaccountable Congress" (Regnery Gateway,

1992), I described numerous gimmicks used in Washington to hide the truth about government spending from the American people, including: "fudging the economic numbers", "off-budget treatment", "trust fund deficit masking", and "front-loading." But I believe the biggest culprit in the systematic deception of the American people is a method of accounting based merely on the easily manipulated timing and flow of cash receipts and disbursements.

The day after Enron collapsed, investors all across America cried, "Where was the board of directors when this was happening?" Good question. We should also ask: "Where has Congress been since it mandated accrual accounting, budgeting and reporting some 50 years ago?" Incredibly, in 1956, Congress, heeding the advice of the Hoover Commission, actually passed a bill, subsequently signed into law (amending the Budget and Accounting Procedures Act of 1950) to require the federal government to adopt the accrual method of accounting for budgeting and reporting. Nearly 50 years later, we have not yet implemented that law.

What's the answer? First and foremost, the federal government must finally implement the accrual accounting method it mandated almost 50 years ago. The American people need to know, in advance, the real cost of government programs, so they can hold our politicians accountable. Accrual accounting must be in-

stituted and applied not only to the financial reporting process, but even more important, to the budget process. Only then can we have meaningful debate about the real cost of government programs now and in future years. And only then can Americans choose the best policies for themselves and for their children.

As Howell Jackson has observed: "Everything about the current accounting system conspires to prevent action today, when relatively painless solutions are still possible. If Social Security were to present its finances on the basis of accrual accounting, the public would have to face the hard truth that the system is insolvent — and its real economic status currently is not annual surpluses but deficits that are increasing by hundreds of billions of dollars each year now and into the future. Politicians would have more incentive to act [if the public knew the truth]."

The red ink we are leaving our children is as serious, substantial and dangerous as the iceberg that destroyed the Titanic. Let's clear the fog and change course now, before it's too late.

Joseph J. DioGuardi represented Westchester County, N.Y., in the U.S. House of Representatives from 1985 to 1989. He was the first practicing Certified Public Accountant elected to Congress and has pushed for accounting reforms since leaving the House in 1989. He is volunteer president of Truth In Government.