

# A SEAT AT THE TABLE: Contributions of Govt. Acctg. to Fiscal Policy and Management

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寻求一席之地：  
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北京大学 财政系 座谈会  
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# Inspirations

朱镕基总理

- 坚持准则
- 不做假帐

杨时展教授

- 天下未乱计先乱
- 天下欲治计先治

# Value-added of Govt. Acctg.

Relative to the Budget

# Fiscal Information of American Govt.

## GFS and Budget

- Economic Report of the President – Govt. Finance Statistics as part of macro-economics statistics
- Budget of the U.S. Govt.
  - Deficit = Outlays – Receipts
  - Debt to finance deficit

## Accounting System

- From the very beginning of U.S. Govt:
  - cash balance
  - Cash receipts – cash outlays = cash deficit
  - Public debt (bonds/notes)

# Fiscal Information of American Govt.

## Budget

- 1967 President's Commission on Budget Concepts recommended:
  - Unified budget (adopted)
  - Accrual basis (not implemented in budgeting, except selectively for credit programs in 1990)

## Accounting System

- Always tracking use of budgetary resources.
- Since the mid-1970s, two major conceptual innovations:
  - Consolidated financial statements (CFS) to cover the whole U.S. Govt.
  - Accrual accounting to report assets and liabilities

# Common Historical Roots

- Constitution of the United States (1789): “No Money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and account of the Receipts and Expenditures of all public Money shall be published from time to time” (Article I, Section 9).
- Budget and Accounting Act of 1921 established the Bureau of the Budget in the executive branch and the General Accounting Office to conduct investigations and audits for Congress.

# Separate Developments (or Lack Thereof)

## **Federal Budgeting**

- The era of presidential domination lasted to 1974 when the congressional budget process / office was established.
- Budget innovations: planning, programming and budgeting system (1960s), zero-base budgeting (1970s) and fiscal rules to reduce deficit (1980s)

## **Federal Accounting**

- 1930s Presidential commission recommendation of separating accounting (an executive function) and auditing (a legislative function) was rejected by Congress.
- Mid-1970s: CFS and accrual experiment began...
- Inter-branch “cold war” lasted until 1990.



# An Ailment and a Fiscal Examination

## **Federal Budgeting**

- 1990: use of different methods to control mandatory spending and discretionary spending .
- First balanced budget in 1998 under Clinton and lasted for four years .
- Deficit resumed in 2002 under G.W. Bush beginning with wars and ending with financial crisis.
- Huge deficits and rising debt with no end in sight.

## **Federal Accounting**

- Chief Financial Officers Act 1990 required audited agency-wide financial statements.
- Inter-branch cooperation set up accounting standards advisory board.
- First audit of govt-wide CFS in FY 1998 – disclaimer continued to FY 2009.

# Cash Budgeting and Accrual Accounting

## Budgeting

- Budget scoring rules for deficit control.
- But unified budget deficit remains (mostly) on the cash basis: outlays over receipts; deficit financed by borrowing from the “public” and the Social Security fund.

## Accounting

- Unconstrained by laws and regulations, higher degrees of accrual were adopted.
- Cash outlay → expenditure → expense
- Cash balance → financial resources → economic resources.
- Current liabilities → long-term and contingent liabilities, in addition to bonds payable.

# U.S. Government Cash Deficit

<b>Amounts in Billions of US\$</b>	<b>FY 2009</b>	<b>FY 2008</b>
Receipts	2,105	2,523
Outlays	3,522	2,978
Deficit (-)	-1,417	-455

# U.S. Government Accrual Deficit

<b>Amounts in Billions of US\$</b>	<b>FY 2009</b>	<b>FY 2008</b>
Revenues	2,499	2,912
Expenses	-3,736	-3,892
Deficit	-1,237	-980

# U.S. Government Adjusted Accrual vs. Cash Deficit

Amounts in Billions of US\$	FY 2009	FY 2008
Accrual Def.	-1,253	-1,009
Cash Def.	-1,417	-455
Difference	164	-554

# Relationship between Financial Position and Performance

- At the beginning of a period: cumulative amounts from past periods

$$\text{Net Assets} = \text{Assets} - \text{Liabilities}$$

- Effects of transactions and events during the period

Borrowing	0	+A	+L
Revenues:	+	+A	
	+		- L
Expenses:	-	- A	
	-		+ L

- Result in new balances at the end of the period

$$\text{Net Assets} = \text{Assets} - \text{Liabilities}$$

# Major Differences Between Cash and Accrual Deficits in Billions (FY 2008)

Liabilities for military employee benefits	110
Liabilities for veteran's compensation	339
Liabilities for civilian employee benefits	101
Depreciation expense	55
Capital expenditures	106

# U.S. Govt. Interventions in the 2008/09 Financial Crisis

Estimates inferred from financial  
statements; not actual transactions



# Accounting Recognition (?) of U.S. Government Actions

- The administration announces rescue plans.
- Congress passes legislation authorizing rescue actions.
- The government borrows cash to increase its own liquidity (ability to pay cash on demand).
- The administration enters into transactions with specific entities:
  - Lending, investing
  - Providing insurance coverage and guarantees

# Cash Deficit Deteriorated Much More Than Accrual Deficit. Why?

Amounts in Billions of US\$	FY 2009	FY 2008
Accrual Def.	-1,253	-1,009
Cash Def.	-1,417	-455
Difference	164	-554

# Borrowing, Lending and Investing Had No Impact on Accrual Deficit

Amounts in Billions of US Dollars	Assets	- Liabilities	= Net Assets
Borrowing cash by issuing debt securities:			
Cash	+\$1,746		
Bonds or Notes Payable		+\$1,746	
Using borrowed cash to make loans or buy shares of failing banks and companies:			
Loans receivable & mortgage backed securities	+\$285		
Direct loans and equity investments	+240		
Investments in mortgage fin. institutions	+57		
Ownership interest in rescued companies	+24		
Cash	-606		

# Increase in Accrual Deficit Results from Increased Liabilities in FY 2009

Amounts in Billions of US Dollars	Assets	- Liabilities	= Net Assets
Providing insurance and guarantee: Liabilities for providing insurance & guarantees Expense (estimated loss)		+81	-81
Providing liquidity guarantees: Liability for making guarantees Expense (estimated loss)		+78	-78

# Distinguishing...

- Liquidity: the ability to pay cash as needed or on schedule
- Solvency: having enough financial resources (investments and claims against others) to cover financial obligations (claims by others) in
  - The short term
  - The long-term
- Viability: having enough economic resources to provide goods and services and have normal operations.

# Not All's Well in Federal Acctg.

- Inability (unwillingness?) to recognize or measure significant resource and obligations.
- Inability to produce simple easy-to-understand financial statements.
- Significant internal control and financial management problems in key departments.
- Large number of cases of improper accounting.
- Credibility of financial reports at risk due to auditor's refusal to give audit opinion for 12 years.

# Contributions of Govt. Accounting

Lest We Forget

# Govt. Acctg. Contributions to Fiscal Policy

- Reminding policy makers of consequences of decisions and actions: casting long shadows to the day of reckoning.
- Accumulating long-term memory: “legacy costs” forever?
- Preserving institutional memory: liabilities of the U.S. Government as a going concern.
- Accounting for “deeds” to confront budgetary “words”: reality check for lofty promises.



# Govt. Acctg. Contributions to Fiscal Management

- Creating and following audit trails: the importance of paperwork in fighting corruption.
- Ensuring smooth running of govt: safeguarding the treasury, receivables be received, payables be paid.
- Taking stock of “rights” and “obligations” – knowing thyself (家底)

# My (Tiny) Roles

# A Country Boy from Guangdong

## China

- New China is born
- Land Reform
- Great Leap Forward
- Cultural Revolution
- Economic Reform and Opening to the world
- Budget and financial management reform

## Me

- I am born.
- Little landlord leaves the farm.
- Americanization and education
- Why make the rich richer?
- Govt. acctg. teaching, research and public service
- Return of a native son.

# My Adventures in Govt. Acctg.

- 1968-75: Degrees in acctg, real interest in politics, govt. and economics
- Since 1975 - : local govt. acctg.: NCGA
- Since 1980's -90s -: federal govt. acctg.: GAO
- Since 1980s: international: CIGAR, OECD, IMF
- Since 1992: Observer-participant of China's budgeting and govt. accounting reform
- Since 2008: no where to go, except ...

# Recent/Current Projects

- Ph.D. courses and advising in Europe, China.
- Research commissioned by the Chinese Ministry of Finance: international comparisons and policy advice.
- Consulting for the IMF / FAD.
- On my own again: Constitutional law; all things Chinese

# Lectures in Govt. Acctg. Beijing, May 2010

1. American govt. acctg. in comparative and historical perspective
2. “5P Model” for making sense of American govt. acctg. and financial reporting
3. “Less Is More”: 10 Principles for 100 Standards
4. Premier Zhu’s command: 不做假帐
5. Prof. Yang’s prescription: 天下欲治计先治

# Budget and Acctg. Perspectives of U.S. Govt. Finances: Illustrations

- Page 1: Budget totals (FY 2009-2020)
- Page 2: Outlays and Receipts (FY 2011, 2015)
- Page 3-5: History of Deficits (1789-2015)
- Page 6: Cash Deficits (FY 2008, 2009)
- Page 7-8: Accrual Deficits (FY 2008, 2009)
- Page 9: Cash Deficit vs. Accrual Deficit (FY 2008, 2009)
- Page 10: Balance Sheets (end of FY 2008 and 2009)