



Pay as you go --- sign, Thomas Wallace, 15 Mar 2013, flickr.

Taking Back the Constitution - Part 13 - Promises for the future

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Promises for the future?

Our government often makes promises for the future that it has neither the skill or funds to deliver. Among the most difficult to finance are Medicare and Social Security. Actually no Congress can commit future Congresses to make these payments, but the outrage and pain among our citizens that would occur if a future Congress should rescind these payments is terrible to contemplate. The short time-horizon of many politicians causes them to make these promises to pay when they often fail to save enough money for the benefits promised.

Government actuaries, since they have no penalties for overly optimistic reports, often yield to political pressures and produce reports that must be downgraded every few years. The Congressional Budget Office routinely fails to take into account the impact of legislation on people's behavior. They can fall back on the excuse that they only use the numbers they are

given. Unfortunately, their numbers and rules come from Congress. This is rather like the fox guarding the hen house.

In fact Congressmen who are unwilling to lie about the real solvency of programs they are supposed have funded are derided by their colleagues. They are described as “partisan” and “unwilling to compromise” with their opponents.

The value of being able to promise future benefits without really making provision to pay for them is very attractive to any elected official who wants to be reelected. Term limits might reduce this tendency toward “lying for reelection,” but other methods could also drastically improve the honesty of government economic numbers.

A solution.

Pay-as-you-go with private audits. This is not simple, but would provide a level of transparency that our federal government has never seen.

This technique would require purchase of any future benefit immediately. That means if the federal government promises a future benefit it is expensed at the time incurred. Purchase would be on the open market from private firms or individuals to get honest prices. For example, when you pay into social security, you accrue credit toward your future retirement. The government would be required to purchase that credit annually from a private firm. Thus when you acquire enough credit and you chose to retire, the firm will pay you the amount you have been promised. Since private firms don't exist to lose money, they will have carefully calculated how much they must be paid to produce the required amount of benefit, plus hopefully, a little profit. Normal competition will keep profits modest.

Purchase of private insurance and benefits would insure that full actual costs are paid in each year. In fact stipulation should be made that all benefits must be purchased within 90 days of the end of a calendar year to avoid undue procrastination.

The Government Accountability Office (GAO) can perform an annual audit of each appropriation area to provide the information necessary to enforce this requirement. In each appropriation area, this must be backed up by a private audit of selected critical areas. Audit failures caused by agencies poor accounting practices are too common.¹ Some significant consequences are needed to direct management's attention to this problem. In the amendment below wages are reduced by one-fifth in any month in which an appropriation area fails to achieve an unqualified successful audit from both the GAO and the private audit.

Won't Congress just find a way around this requirement?

If the requirement were in normal legislation, there is no doubt that Congress would find an “emergency” or two requiring delay or stopping benefit purchases altogether. However, if the current funding of benefits is a constitutional requirement, backed up with significant consequences, that becomes less likely. I suggest that federal wages in that appropriation area,

be reduced if benefit purchases are not made by the end of a grace period. They will remain reduced until the purchases are made, with no retroactive wage reimbursement permitted.

Successful purchases are checked by an audit of that appropriation area. Note, that previously purchased benefits like social security would continue without interruption or reduction because they are an obligation of a private firm. Thus the purchase of benefits on a current basis would eliminate the current disaster of “unfunded” obligations and the uncertainty that retirees will obtain their payments.

Implementing “pay-as-you-go:

Amendment Number _____

The United States government may not promise any benefit outside the fiscal current year. If it chooses to incur obligations that require payment in future years it shall purchase that payment from private firms within the current year or at least no later than 90 days after year end.

Failure to provide adequate records for a successful Congressional and private audit, or to purchase the required payments within the required period, will cause all wages (except those to enlisted armed service members or officers in combat positions), within the appropriation area, to be reduced by one-fifth. Wage reduction shall continue on a month by month basis until the audit is successful. No reimbursement shall be made for the reduction.

This amendment will go into effect as of the beginning to the next fiscal year. Benefit obligations from past years will be covered by private purchases over 20 years with equal purchases in each year.

ⁱ http://www.huffingtonpost.com/2013/01/18/gao-audit-federal-government-defense_n_2507097.html