

Congress of the United States
House of Representatives

Washington, DC 20515

May 28, 1987

The Honorable Howard H. Baker
Chief of Staff
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Senator Baker:

Your interest in budget reform is very encouraging. And I believe this is a viable issue for President Reagan to take the offensive against those who claim the Reagan legacy is one of deficits when, in fact, it is not.

Did you know that when using Generally Accepted Accounting Principles (GAAP) the budget deficit during Jimmy Carter's last year in office was higher than the deficit in 1984, the last year of President Reagan's first term? Using 1984 dollars, the deficit in 1980 was \$408 billion; in 1984, the deficit was \$333 billion -- a cut in the deficit of \$75 billion.

In addition, when using GAAP, President Reagan is lowering deficits as a percentage of GNP from the Carter levels. In 1980, the deficit was 12.5% of GNP; in 1984, the deficit was 9.3% of GNP.

Budget reform must be viewed in the larger context of financial management. As important as the budget process is, we will never be able to solve our financial problems without a comprehensive solution. There is also the need for:

- Sound accounting principles to properly measure costs.
- Sound information systems to establish control over operations.
- Sound reporting to measure results and reward accomplishments.
- Sound organization to assure proper implementation of these keys to successful financial management.

This is a logical issue for President Reagan and there is still time to put this fundamental reform into place.

A portion of the cash-basis deficits we are experiencing represent the liquidation of liabilities incurred many years ago, when the programs were first enacted. If those liabilities had

been recorded in the period incurred, deficits would be lower under President Reagan than under Jimmy Carter.

The following graphs using constant dollars and the accrual basis of accounting, which is a more meaningful measure of spending, clearly show that deficits compiled by Jimmy Carter are greater than the deficits incurred under President Reagan.

The Carter Years:

| Year | <u>Cash Basis Annual Deficit</u> | | | <u>GAAP Basis Annual Deficit</u> | | |
|------|----------------------------------|-------|--------------------------|----------------------------------|--------|----------|
| | Nominal \$ | % GNP | (\$ Billions) 1984 \$ | Nominal \$ | % GNP | 1984 \$ |
| 1977 | \$ 53.6 | 2.9% | \$ 85.9 | \$224.6 | 12.1% | \$359.8 |
| 1978 | 59.0 | 2.8 | 88.4 | 215.8 | 10.3 | 323.2 |
| 1979 | 40.2 | 1.7 | 55.5 | 256.8 | 10.9 | 354.9 |
| 1980 | 73.8 | 2.9 | 93.5 | 322.2 | 12.5 | 408.3 |
| | | | | | 11.45% | \$1446.2 |
| | | | | | Avg. | |

The Reagan Years:

| Year | <u>Cash Basis Annual Deficit</u> | | | <u>GAAP Basis Annual Deficit</u> | | |
|------|----------------------------------|-------|--------------------------|----------------------------------|--------|----------|
| | Nominal \$ | % GNP | (\$ Billions) 1984 \$ | Nominal \$ | % GNP | 1984 \$ |
| 1981 | \$ 78.9 | 2.7% | \$ 91.3 | \$ 264.7 | 9.2% | 306.3 |
| 1982 | 127.9 | 4.2 | 138.5 | 314.0 | 10.3 | 339.9 |
| 1983 | 207.8 | 6.4 | 215.6 | 395.3 | 12.3 | 410.1 |
| 1984 | 185.3 | 5.2 | 185.3 | 333.4 | 9.3 | 333.4 |
| | | | | | 10.28% | \$1389.7 |
| | | | | | Avg. | |

Source: Arthur Andersen & Co.

As you can see, Jimmy Carter's deficits are more than \$55 billion greater than the debt incurred during President Reagan's first term.

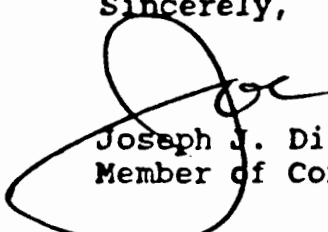
The White House needs to take the initiative on this issue.

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Without that initiative we in the minority will not be able to push this issue to the fore in time for President Reagan to preside over its implementation.

My professional background as a Certified Public Accountant led me to introduce H.R. 1241, legislation to create a Chief Financial Officer of the United States. I would be more than happy to provide you with any additional material that you may need.

Sincerely,



Joseph J. DiGuardi
Member of Congress

Enclosure