

The Government Accountability Office has long had a statutory responsibility for monitoring the condition of the nation's finances. Recently, in our role as the auditor of the U.S. government's consolidated financial statements, we included an emphasis paragraph in our audit report for the fiscal year ended September 30, 2004 expressing our concerns that the fiscal policies in place today will—absent unprecedented changes in tax and/or spending policies—result in large, escalating, and persistent deficits that are economically unsustainable over the long term. This conclusion is based on the results of GAO's long-term budget model, which the agency has used since 1992.

Over the long term, the nation's growing fiscal imbalance stems primarily from the aging of the population and rising health care costs. These trends are compounded by the presence of near-term deficits arising from new discretionary and mandatory spending as well as lower revenues as a share of the economy. Absent significant changes on the spending and/or revenue sides of the budget, these long term deficits will encumber a growing share of federal resources and test the capacity of current and future generations to afford both today's and tomorrow's commitments. Continuing on this unsustainable path will gradually erode, if not suddenly damage, our economy, our standard of living and ultimately our national security.

Addressing the nation's long-term fiscal imbalances constitutes a major transformational challenge that may take a generation to resolve. Given the size of our projected deficit we will not be able to grow our way out of this problem—tough choices will be required. In addition, traditional incremental approaches to budgeting will need to give way to more fundamental and periodic reexaminations of the base of government, ultimately covering discretionary and mandatory programs as well as the revenue side of the budget. The nature and magnitude of the fiscal, security, and economic and other adjustments that need to be considered are not amenable to “quick fixes;” rather they will likely require an iterative, thoughtful process of disciplined changes and reforms over many years. Nonetheless, the magnitude of and potential disruption from related changes can be mitigated if the necessary policy changes are made sooner rather than later.

While prompted by fiscal necessity, such a fundamental review of major program and policy areas can also serve the vital function of updating the federal government's programs and priorities to meet current and future challenges. Many current federal programs and policies, in fact, were designed decades ago to respond to trends and challenges that existed at the time of their creation. Given our recent entry into a new century, we have been reminded of how much has changed in the past several decades—whether it be rapid shifts in the security threats facing the nation, the aging of our population, the globalization of economic transactions, escalating health care costs, increased environmental concerns, or the significant advances in technologies and transportation systems. Moreover, given the fiscal constraints we are likely to face for many years to come, such a reexamination may very well be essential to address newly emergent needs without unduly and unfairly burdening future generations of taxpayers.

Having identified the major fiscal challenge facing the nation, and given our role in supporting the Congress, we believe that GAO also has an obligation to provide policymakers with support in identifying issues and options that could help to address these fiscal pressures. In this report, we build on our past and pending work—90 percent of which is requested by the Congress or required by law—to provide policy makers with a comprehensive compendium of those areas throughout government that could be considered ripe for reexamination and review. This report is consistent with other GAO products, such as our high-risk series and budget options reports, where we pull together our insights and previous work for the Congress to help in its budget and programmatic deliberations and oversight activities.<sup>1</sup>

This report is intended to help the Congress in reviewing and reconsidering the base of federal spending and tax programs. It is intended as one input among many that Congress will receive as it decides what its agenda will be for oversight and program review.

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005) and *Opportunities for Congressional Oversight and Improved Use of Taxpayer Funds*, [GAO-04-649](#) (Washington, D.C., May 7, 2004).

We have framed the issues presented as illustrative questions for policymakers to consider as a supplement to their own efforts. The questions are drawn from GAO's issued work, our strategic plan prepared in consultation with the Congress, input from several inspectors general and the institutional knowledge of our staff. They cover discretionary spending, mandatory spending, including entitlements, as well as tax policies and programs. While answers to these questions may draw on the work of GAO and others, only elected officials can and should decide which questions to address as well as how and when to address them.

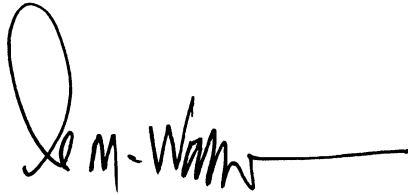
The report is organized in three sections. The first section sets the stage by providing the rationale for reexamining the base of the federal government and the scope of GAO's effort. The second section is organized around 12 areas of federal activity and includes narratives discussing emerging changes in each area as well as several illustrative reexamination questions for each area. The third section provides some perspective on various strategies, processes, and approaches that should be considered as a possible means to address the issues and questions raised in this report.

GAO stands ready to assist the Congress in addressing the much needed base-line review of existing federal programs, policies, functions, and activities.

The report was prepared under the direction of Paul Posner, Managing Director for Federal Budget and Intergovernmental Issues in our Strategic Issues team, with the assistance of every GAO team. Ty Mitchell and John Forrester of our Strategic Issues team were the key staff responsible for the development and

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publication of this document. Copies of this report are available upon request. In addition this document will be available at no charge on the GAO Web site at <http://www.gao.gov>.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker  
Comptroller General  
of the United States