Comptroller General
of the United States

Washington, D.C. 20548

150853

B-256486

February 18, 1994

The Honorable Paul Simon
United States Senate

Dear Senator Simon:

You requested our views on the need for continued deficit reduction and how the current deficit outlook compares to the "no action" scenario discussed in our June 1992 report, Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 5, 1992). Your request comes in the context of the pending debate on a constitutional amendment to require a balanced federal budget. GAO has not endorsed any of the proposed balanced budget amendments. We have, however, long supported making the hard policy choices that would lead the country to a more balanced budget.

In our 1992 report, we looked at the trends driving the deficit over the long term. We developed four scenarios to show the implications of various fiscal policies in dealing with the deficit. These scenarios, projected to the year 2020, were: (1) doing nothing and allowing the deficit and cumulative debt to grow unchecked, (2) holding the deficit to 3 percent of gross national product (GNP), (3) achieving a balanced budget early in the next century and maintaining balance thereafter, and (4) achieving a balanced budget and then moving into surplus.

While the "no action" scenario depicted an explosion of the deficit and the national debt, this alternative was included in the report to illustrate the need to take action before external events forced belated but certainly more painful policy changes. We said at the time that we did not believe the "no action" scenario would come to pass, and, indeed, the deficit outlook has changed in the 2 years since our report was issued.

In the Omnibus Budget Reconciliation Act of 1993, the Congress and the President have taken action that the Congressional Budget Office (CBO) estimates will reduce the deficit by $433 billion from 1994 through 1998. CBO now projects the deficit will be 3.1 percent of gross domestic product (GDP) in 2003, down from its projections of 6.8 percent a year ago. These recent improvements in the deficit picture obviously would affect the starting point used in our 1992 report, which in turn would alter the outcome of the four scenarios we outlined.

The deficit problem, of course, has not gone away. The forces identified in our 1992 report that were driving the long-term deficit remain at work--rising health care costs, the baby boom generation's eventual retirement, and rising interest costs. The near-term impact of these forces is reflected in CBO's projections, which forecast the deficit resuming its growth beginning after 1998, rising from 2.2 percent of GDP in 1998 to 3.3 percent in 2004. CBO also projects that the federal debt, as a percent of GDP, will begin to rise at the same time.

The steps taken last year to reduce the deficit demonstrate the positive effects that can flow from making the hard programmatic policy choices necessary to reduce the deficit. In the final analysis, we believe there is no substitute for further programmatic actions to bring the deficit down.

Sincerely yours,

Charles A. Bowsher

Charles A. Bowsher
Comptroller General of the United States