

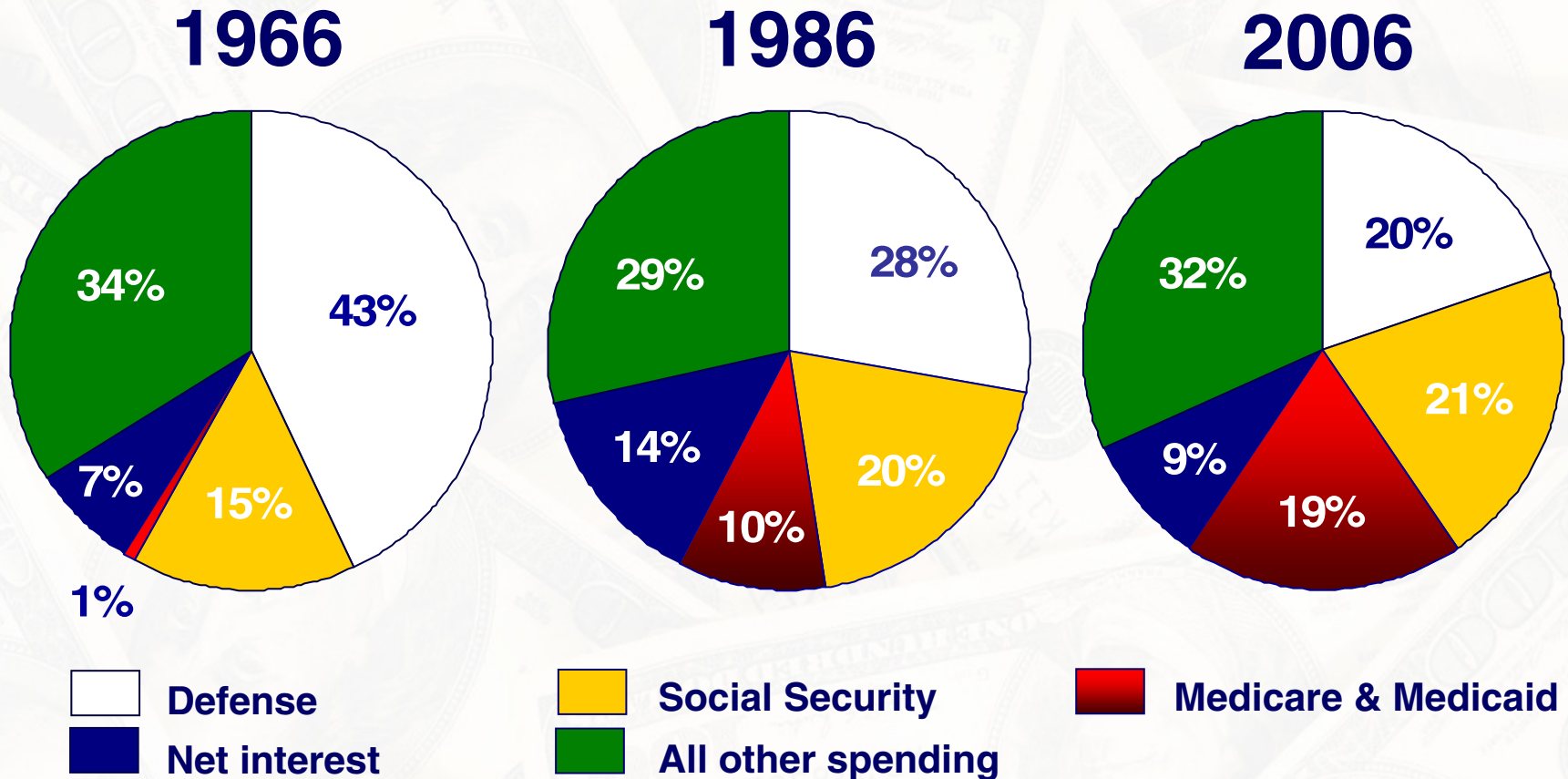
United States Government Accountability Office

Saving  
Our Future  
requires  
Tough Choices Today

University of Hartford  
Hartford, CT  
October 23, 2007

The Honorable David M. Walker  
Comptroller General of the United States

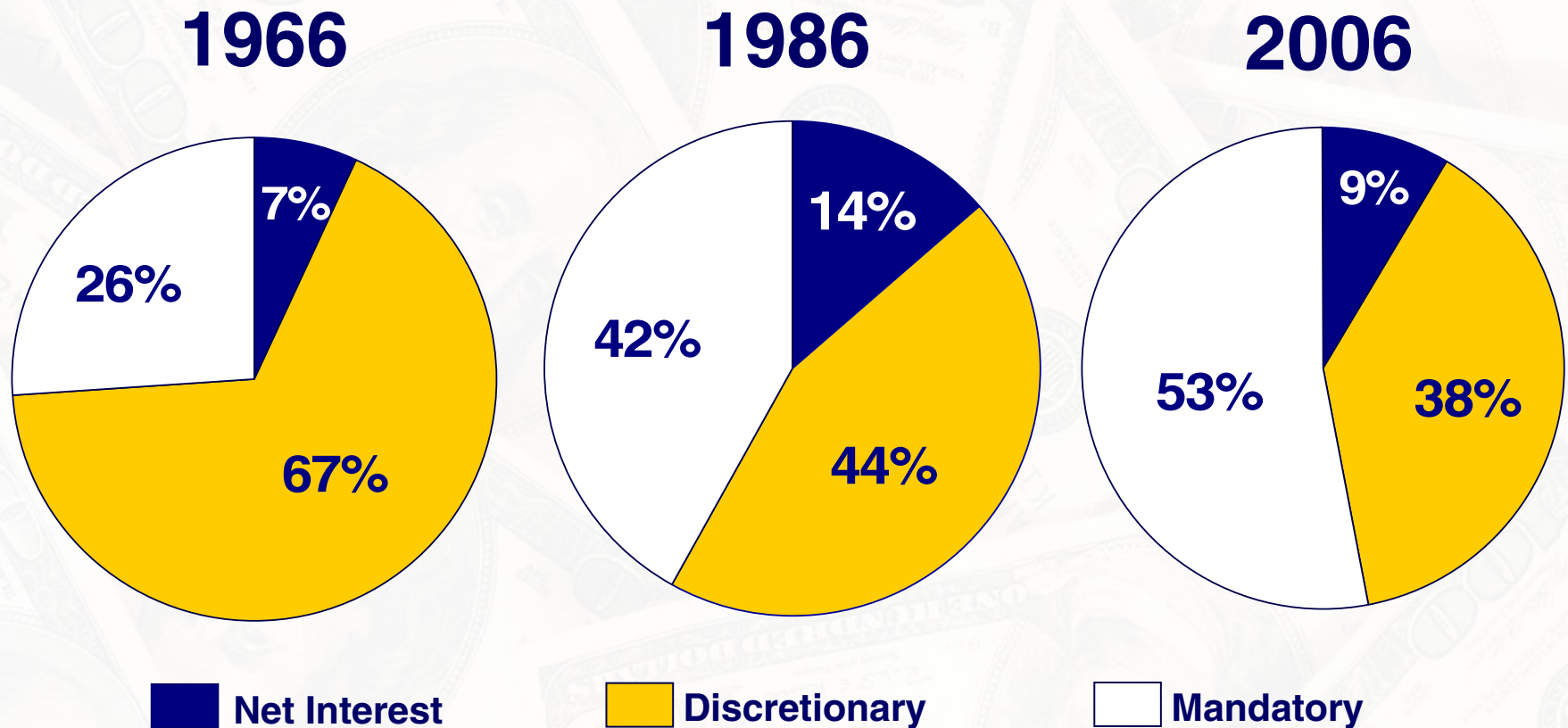
# Composition of Federal Spending



Sources: Office of Management and Budget and the Department of the Treasury.

Note: Numbers may not add to 100 percent due to rounding.

# Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

# Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

|                                       | <b>Fiscal Year 2005</b> | <b>Fiscal Year 2006</b> |
|---------------------------------------|-------------------------|-------------------------|
|                                       | <b>(\$ Billion)</b>     |                         |
| <b>On-Budget Deficit</b>              | <b>(494)</b>            | <b>(434)</b>            |
| <b>Unified Deficit<sup>a</sup></b>    | <b>(318)</b>            | <b>(248)</b>            |
| <b>Net Operating Cost<sup>b</sup></b> | <b>(760)</b>            | <b>(450)</b>            |

Sources: Office of Management and Budget and Department of the Treasury.

<sup>a</sup>Includes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

<sup>b</sup>Fiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

# Major Fiscal Exposures

(\$ trillions)

|  | 2000          | 2006          | % Increase |
|--|---------------|---------------|------------|
| <b>• Explicit liabilities</b>  | <b>\$6.9</b>  | <b>\$10.4</b> | <b>52</b>  |
| <ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul> |               |               |            |
| <b>• Commitments &amp; contingencies</b>   | <b>0.5</b>    | <b>1.3</b>    | <b>140</b> |
| <ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul>   |               |               |            |
| <b>• Implicit exposures</b>  | <b>13.0</b>   | <b>38.8</b>   | <b>197</b> |
| • Future Social Security benefits  | 3.8           | 6.4           |            |
| • Future Medicare Part A benefits  | 2.7           | 11.3          |            |
| • Future Medicare Part B benefits  | 6.5           | 13.1          |            |
| • Future Medicare Part D benefits  | --            | 7.9           |            |
| <b>Total</b>   | <b>\$20.4</b> | <b>\$50.5</b> | <b>147</b> |

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.



# How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

|  |                        |
|--|------------------------|
| <b>Total –major fiscal exposures</b>                     | <b>\$50.5 trillion</b> |
| <b>Total household net worth<sup>1</sup></b>             | <b>\$53.3 trillion</b> |
| <b>Burden/Net worth ratio</b>                            | <b>95 percent</b>      |
| <b>Burden<sup>2</sup></b>                                |                        |
| <b>Per person</b>  | <b>\$170,000</b>       |
| <b>Per full-time worker</b>                              | <b>\$400,000</b>       |
| <b>Per household</b>                                     | <b>\$440,000</b>       |
| <b>Income</b>  |                        |
| <b>Median household income<sup>3</sup></b>               | <b>\$46,326</b>        |
| <b>Disposable personal income per capita<sup>4</sup></b> | <b>\$31,519</b>        |

Source: GAO analysis.

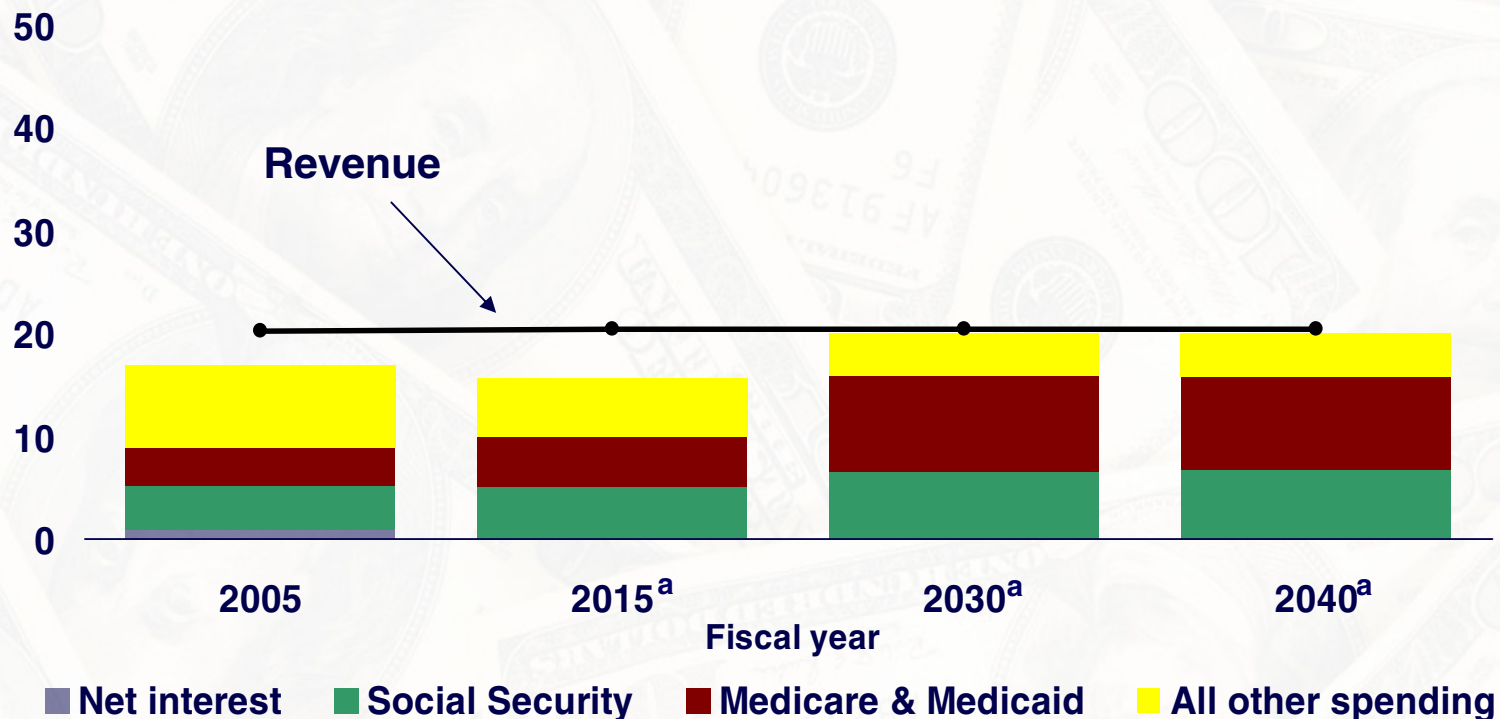
Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: October 2006, table 2, (Nov. 30, 2006).

# Potential Fiscal Outcomes

## Under Baseline Extended (January 2001)

### Revenues and Composition of Spending as a Share of GDP

Percent of GDP



Source: GAO's January 2001 analysis.

<sup>a</sup>All other spending is net of offsetting interest receipts.

# Potential Fiscal Outcomes

## Under Alternative Simulation

### *Revenues and Composition of Spending as a Share of GDP*

Percent of GDP

50

40

30

20

10

0

Revenue

2006

2015

2030

2040

Fiscal year

■ Net interest

■ Social Security

■ Medicare & Medicaid

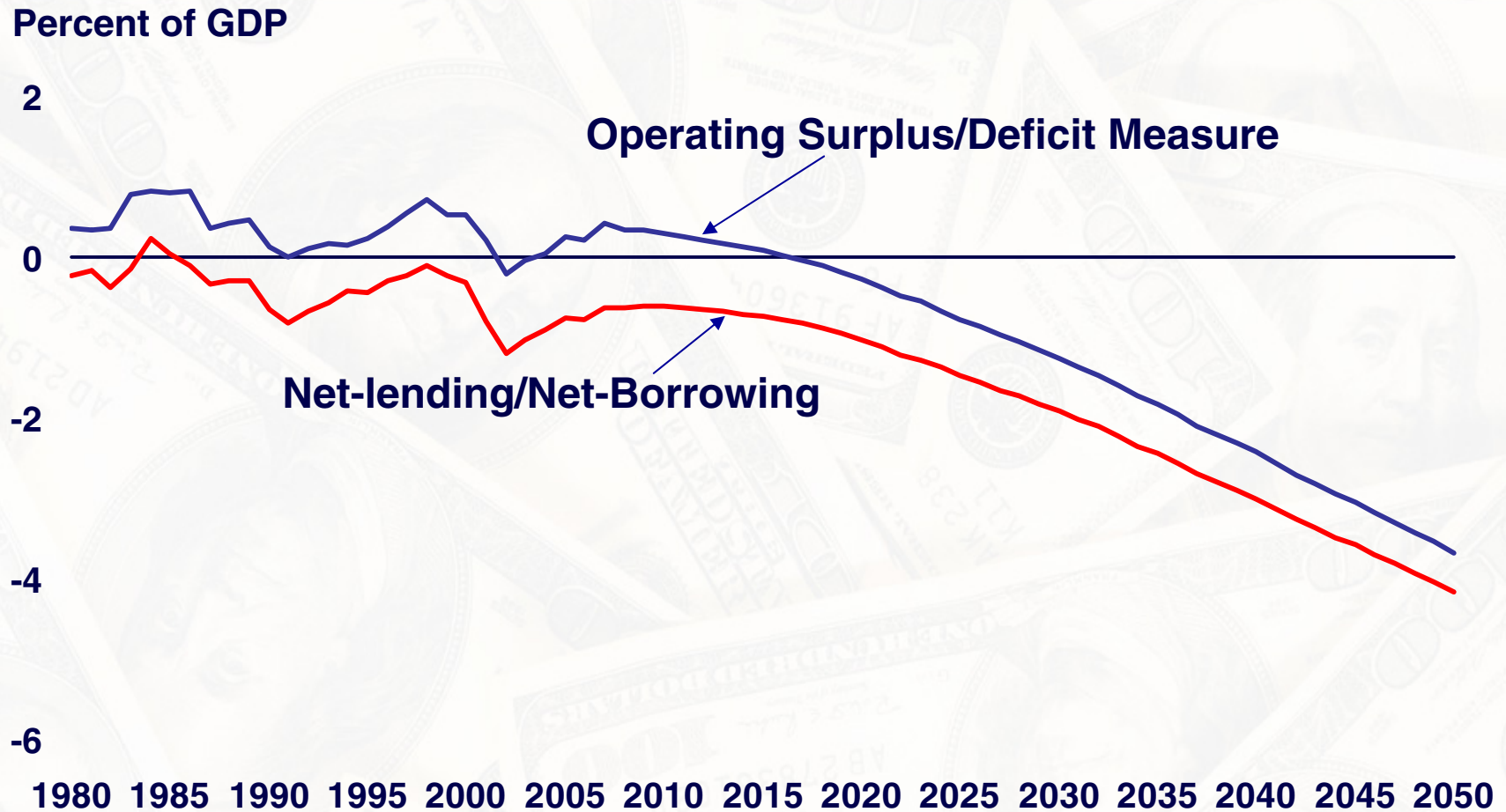
■ All other spending

Source: GAO's August 2007 analysis.

Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

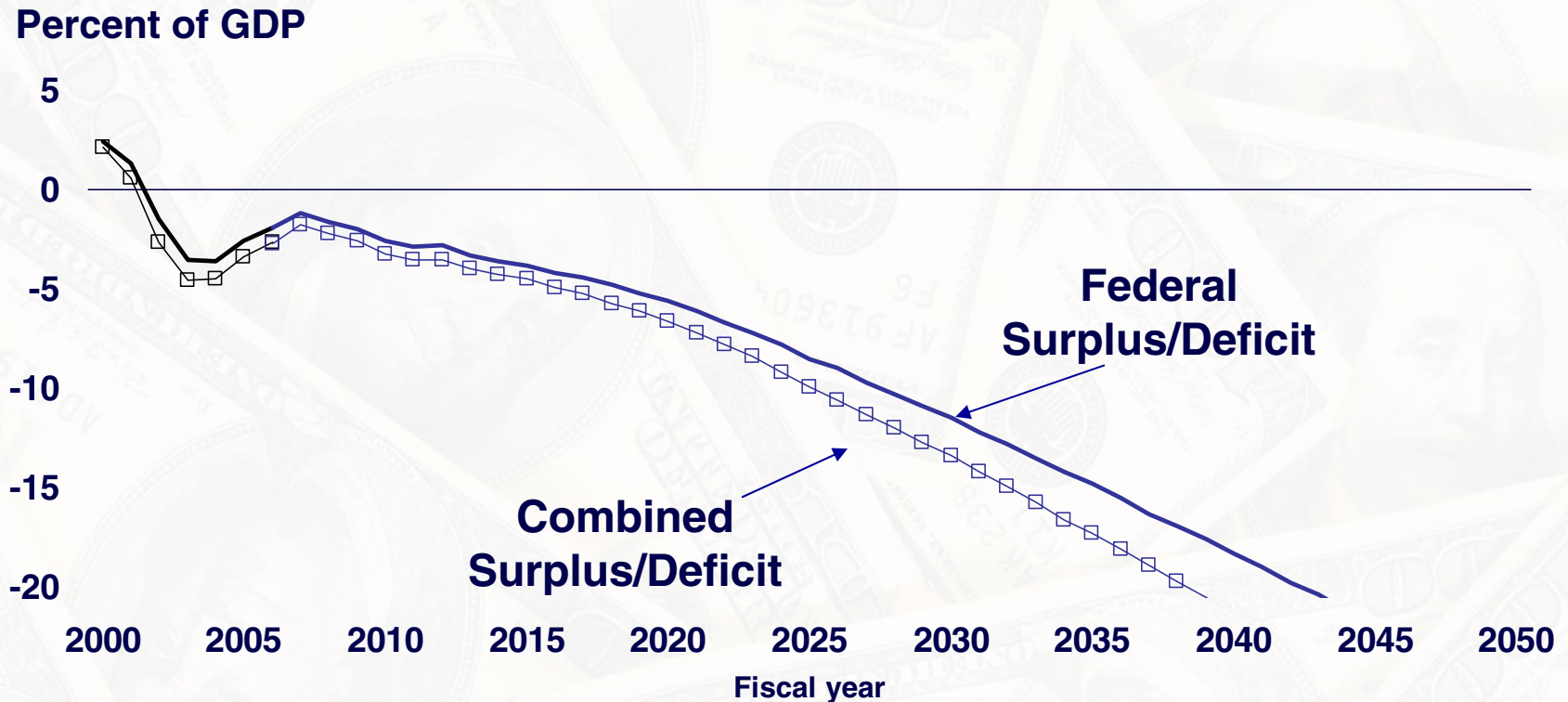


# State and Local Governments Face Increasing Fiscal Challenges



Sources: Historical data from National Income and Product Accounts. Historical data from 1980 – 2006, GAO projections from 2007– 2050 using many CBO projections and assumptions, particularly for next 10 years.

# State and Local Fiscal Challenges Add to the Federal Government's Fiscal Challenge



Source: Historical data from National Income and Product Accounts, GAO Analysis.

Note: Historical data from 2000 – 2006, projections from 2007 – 2050; state and local balance measure is similar to the federal unified budget measure. Federal Simulation Assumptions: Discretionary spending grows with GDP after 2007. AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees' April 2007 projections adjusted for the Centers for Medicare and Medicaid Services' alternative assumption that physician payments are not reduced as specified under current law.

# Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
  - Cutting total federal spending by 60 percent or
  - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years
- During the 1990s, the economy grew at an average 3.2 percent per year
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required

# The Way Forward: A Three-Pronged Approach

- 1. Improve Financial Reporting, Public Education, and Performance Metrics**
- 2. Strengthen Budget and Legislative Processes and Controls**
- 3. Fundamentally Reexamine & Transform for the 21<sup>st</sup> Century (i.e., entitlement programs, other spending, and tax policy)**

*Solutions Require Active Involvement from both the Executive and Legislative Branches*



# Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
  - Serving as a framework for related strategic planning efforts
  - Enhancing performance and accountability reporting
  - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
  - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally



# Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

# 16 OUT OF 28

## OECD Categories for Key Indicators (2006 OECD Factbook)

|                        |                   |                  |                          |
|------------------------|-------------------|------------------|--------------------------|
| • Population/Migration | • Energy          | • Environment    | • Quality of Life        |
| • Macroeconomic Trends | • Labor Market    | • Education      | • Economic Globalization |
| • Prices               | • Science & Tech. | • Public Finance |                          |

Source: 2006 OECD Factbook.

# Moving the Debate Forward

- **The Sooner We Get Started, the Better**

- The miracle of compounding is currently working against us
- Less change would be needed, and there would be more time to make adjustments
- Our demographic changes will serve to make reform more difficult over time

- **Need Public Education, Discussion, and Debate**

- The role of government in the 21<sup>st</sup> Century
- Which programs and policies should be changed and how
- How government should be financed

**These Challenges Go Beyond  
Numbers and Dollars—  
It's About**

**VALUES & PEOPLE**

United States Government Accountability Office

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## On the Web

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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