

GAO

Testimony
Before the Committee on the Budget,
House of Representatives

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**LONG-TERM FISCAL
CHALLENGE**

**Additional Transparency
and Controls Are Needed**

Statement of David M. Walker
Comptroller General of the United States



Chairman Spratt, Mr. Ryan, Members of the Committee,

I appreciate being invited to testify today as you consider the restoration of a statutory pay-as-you go rule(s), or PAYGO. As this Committee knows as well or better than any, this discussion is part of the broader question: How should we deal with our nation's long-term fiscal challenge in order to help ensure that our future is better than our past?

In my testimony today, I will start with our longer-term fiscal challenge. Then I will turn to the process question you present at this hearing: the reimposition of a statutory PAYGO rule(s) as a step toward dealing with this challenge. Finally I will talk about moving beyond caps and PAYGO to some ideas on how improved transparency and process changes can help in the effort to put us on a more prudent and sustainable long-term fiscal path.

As widely reported earlier this month, the Administration now expects the deficit for fiscal year 2007 to be \$205 billion, down from its February estimate of \$244 billion and last year's deficit of \$248 billion. However, because these numbers include the Social Security surpluses, they mask what I like to call the "operating deficit" now estimated to be \$385 billion for fiscal year 2007. Clearly lower short-term deficits are better than higher short-term deficits. However, our real challenge is not short-term deficits, rather it's the long-term structural deficits and related debt burdens that could swamp our ship of state if we do not get serious soon. Specifically, while our near-term fiscal picture is better, our long-term fiscal outlook is not. Health care costs are still growing faster than the economy and the population is still aging. Indeed, what we call the long-term fiscal challenge is not in the distant future. The first of the baby boomers become eligible for early retirement under Social Security on January 1, 2008—less than 1 year from now— and for Medicare benefits in 2011—just 3 years later. The budget and economic implications of the baby boom generation's retirement have already become a factor in Congressional Budget Office's (CBO) 10-year baseline projections and will only intensify as the baby boomers age. Simply put, our nation is on an imprudent and unsustainable long-term fiscal path that is getting worse with the passage of time.

Herbert Stein once said that something that is not sustainable will stop. That, however, should not give us comfort. Clearly, it is more prudent to change the path than to wait until a crisis occurs. While restraint in the near term and efforts to balance the budget over the next 5 years can be positive, they are not enough. It is also important that we take steps to

address our longer-term fiscal imbalance. The real problem is not the near-term deficit—it is the long-term fiscal outlook. It is important to look beyond year 5 or even year 10. Both the budget and the budget process need more transparency over and focus on the long-term implications of current and proposed spending and tax policies. I will suggest a number of things that I believe will help in this area in this testimony.

My remarks are based on our previous work on a variety of issues, including reports and testimonies on our nation’s long-term fiscal challenges and budget process reform. These efforts were conducted in accordance with generally accepted government auditing standards.

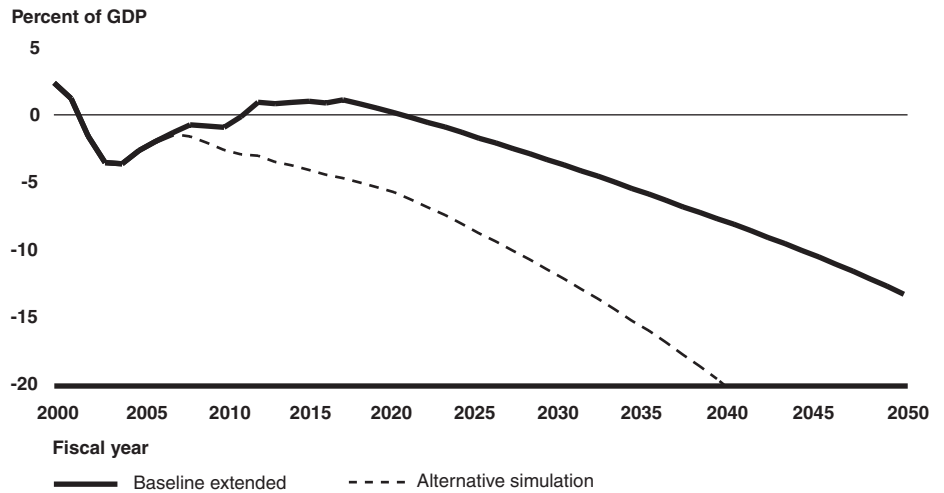
The Nation’s Long-Term Fiscal Challenge

Long-term fiscal simulations by GAO, CBO, and others all show that despite some modest improvement in near-term deficits, we face large and growing structural deficits driven primarily by rising health care costs and known demographic trends. In fact, the long-term fiscal challenge is largely a health care challenge. Although Social Security is important because of its size, the real driver is health care spending. It is both large and projected to grow more rapidly in the future.

GAO’s current long-term simulations show ever-larger deficits resulting in a federal debt burden that ultimately spirals out of control. Figure 1 shows two alternative fiscal paths. The first is “Baseline extended,” which extends the CBO’s baseline estimates beyond the 10-year projection period, and the second is an alternative based on recent trends and policy preferences. Our alternative scenario assumes action to return to and remain at historical levels of revenue and reflects somewhat higher discretionary spending and more realistic Medicare estimates for physician payments than does the baseline extended scenario.¹ Although the timing of deficits and the resulting debt build up varies depending on the assumptions used, both simulations show that we are on an unsustainable fiscal path.

¹Additional information about the GAO model and its assumptions, data, and charts can be found at <http://www.gao.gov/special.pubs/longterm/>.

Figure 1: Unified Surpluses and Deficits as a Share of GDP under Alternative Fiscal Policy Simulations

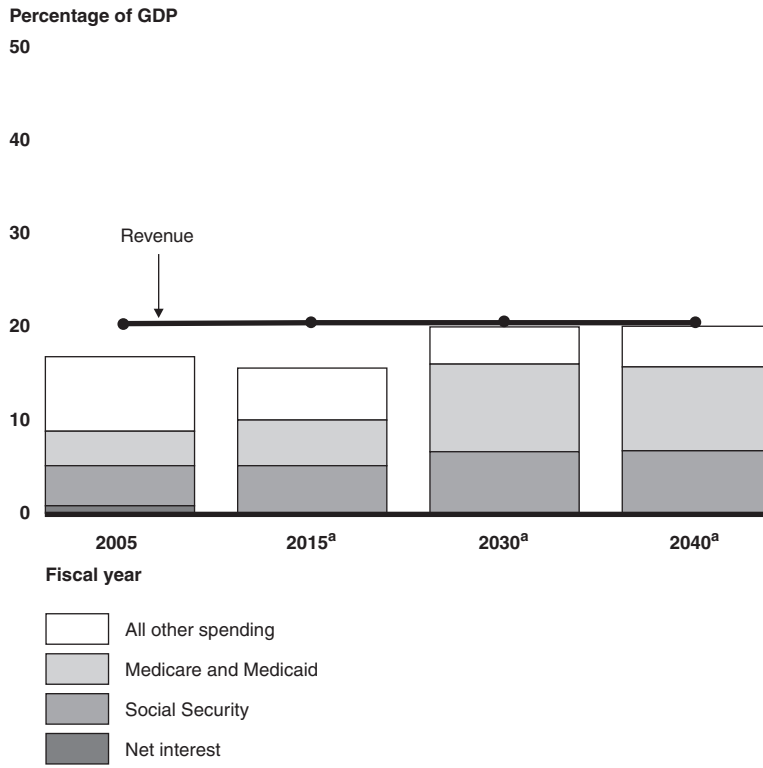


Source: GAO's April 2007 analysis.

The bottom line is that the nation's longer-term fiscal outlook is daunting under any realistic policy scenario or assumptions. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path also increasingly will constrain our ability to address emerging and unexpected budgetary needs and increase the burdens that will be faced by future generations.

As I noted earlier, despite some recent improvements in short-term deficits, the long-term outlook is moving in the wrong direction. Figures 2 and 3 illustrate just how much worse the situation has become. Both figures show the potential fiscal outcome under our "Baseline extended" scenario. Figure 2 shows the fiscal outlook in 2001 and figure 3 shows the outlook now. The contrast is dramatic. Even with the surpluses of 2001, we had a long-term problem, but it was more than 40 years out. Although an economic slowdown and decisions driven by the attacks of 9/11 and the need to respond to natural disasters have contributed to the change in outlook, they do not account for the dramatic worsening in the long-term outlook since 2001. Subsequent tax cuts and the passage of the Medicare prescription drug benefit in 2003 were major factors.

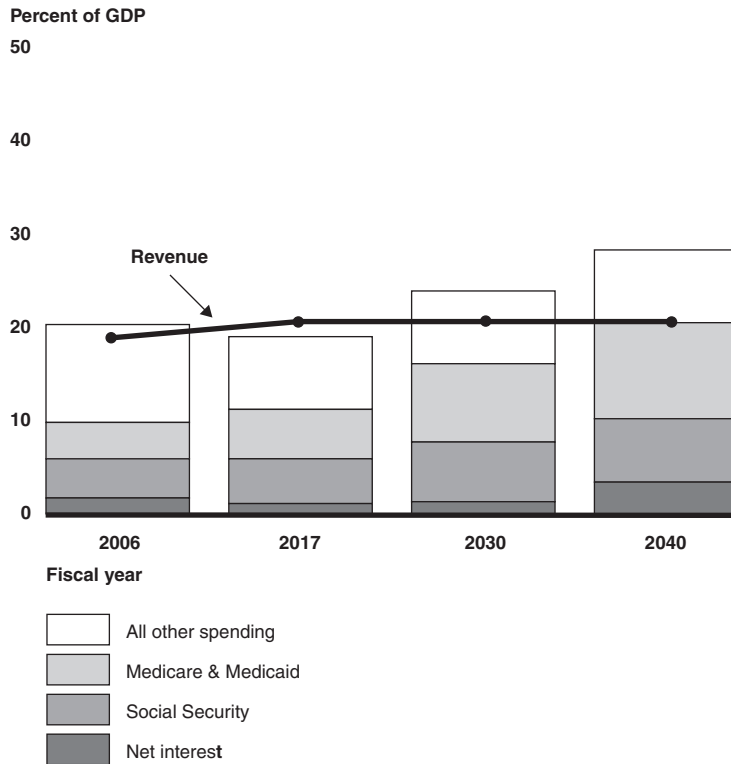
Figure 2: Potential Fiscal Outcomes under Baseline Extended, January 2001: Revenue and Composition of Spending as a Share of GDP



Source: GAO's January 2001 analysis.

^aAll other spending is net of offsetting interest receipts.

Figure 3: Potential Fiscal Outcomes under Baseline Extended, April 2007: Revenue and Composition of Spending as a Share of GDP

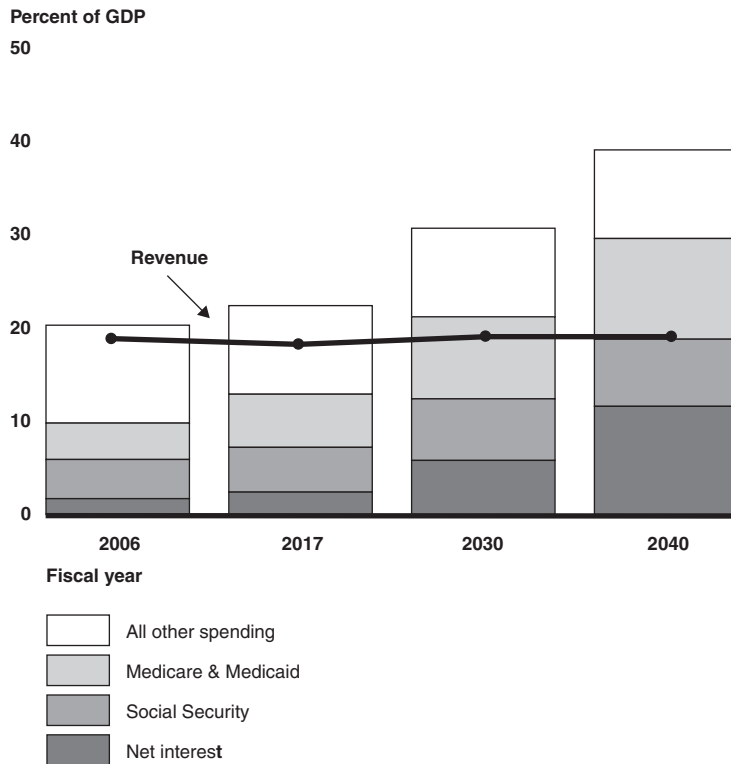


Source: GAO's April 2007 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2017 mainly due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2017, revenue as a share of GDP is held constant—implicitly assuming that action is taken to offset increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.

Figure 3 illustrates today's cold hard truth: that neither slowing the growth in discretionary spending nor allowing the tax provisions to expire—nor both together—would eliminate the longer-term imbalance. This is even clearer under our alternative scenario based on recent trends and policy preferences (see fig. 4). Growth in the major entitlement programs—primarily health spending—results in an unsustainable fiscal future regardless of whether one assumes future revenue will be somewhat above historical levels as a share of the economy as in the first simulation (fig. 3) or at historical levels as shown in figure 4.

Figure 4: Potential Fiscal Outcomes under Alternative Simulation, April 2007: Revenues and Composition of Spending as a Share of GDP



Source: GAO's April 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.

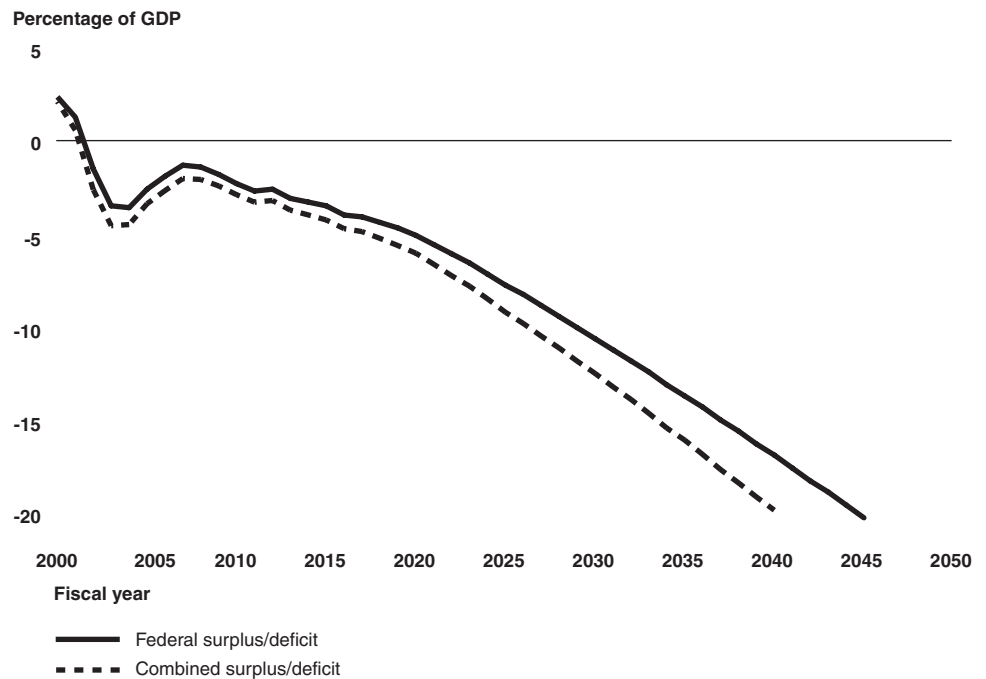
Rapidly rising health care costs are not simply a federal budget problem; they are our nation's number one fiscal challenge. Just last week, GAO released the results of our latest fiscal modeling efforts showing that state and local governments—absent policy changes—will also face large and growing fiscal challenges beginning within the next few years.² As is true for the federal budget, growth in health-related spending—Medicaid and health insurance for state and local employees and retirees—is the

²See GAO, *State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge within the Next Decade* [GAO-07-1080SP](#) (Washington, D.C.: July 18, 2007).

primary driver of the fiscal challenges facing the state and local governments. In short, the fundamental fiscal challenges of all levels of government are similar and linked. Further, escalating health care costs are also a major competitiveness challenge for American businesses and a growing challenge for many Americans. As such, solutions to address these challenges should be considered in a strategic and integrated manner.

The longer-term fiscal challenge we face is not solely a federal one—it is a national one. Figure 5 shows both the federal fiscal path and the fiscal path for the whole of government.

Figure 5: Federal and Combined Federal, State, and Local Surpluses and Deficits as a Share of GDP



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.

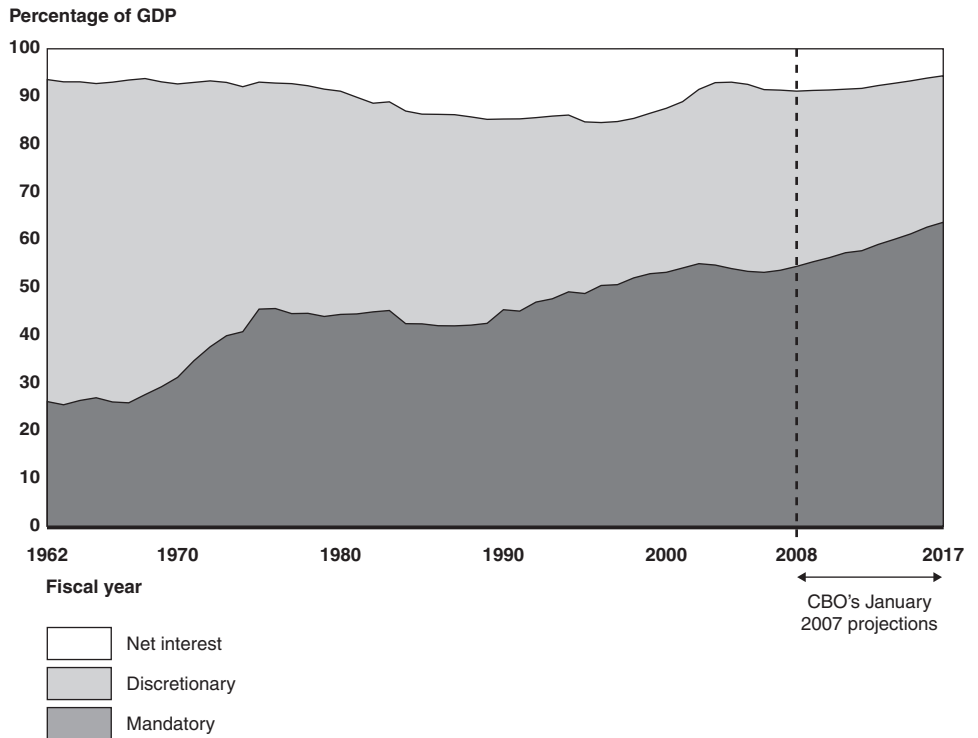
Mandatory Spending Programs Drive the Long-term Fiscal Outlook

There often seems to be an imbalance between the focus of press coverage and public debate and what drives the longer-term outlook. Reporting and debate are often focused on what the Budget Enforcement Act (BEA) called discretionary—the one-third of the budget that goes through the annual appropriation process:³ Is funding for specific programs being cut or increased? Is “too much” or “too little” being spent in a given area? I would be the last person to say this isn’t important. Much of what the American people think of as government is contained in that part of the budget. Further, as I have said before, I believe that reexamining “the base” is something that should be done periodically regardless of fiscal condition—all of us have a stewardship obligation over taxpayer funds. We have programs still in existence today that were designed 20 or more years ago—and the world has changed. However, I would suggest that as constraints on discretionary spending continue to tighten, the need to reexamine existing programs and activities becomes greater.

Certainly controlling discretionary spending is important, but—as everyone in this room knows even with the large costs associated with the “Global War on Terrorism” and Iraq—discretionary spending is not the part of the budget that drives the long-term fiscal imbalance. As figure 6 shows, mandatory programmatic spending—that is mandatory spending excluding interest—has grown from 27 percent of the federal budget in 1965—the year Medicare was created—to 42 percent in 1985 to 53 percent last year. Total mandatory spending including net interest—has grown from 34 percent in 1965 to 62 percent last year. Both the CBO baseline estimates and the President’s Budget proposal show this spending growing even further.

³See 2 U.S.C. § 900(c)(7).

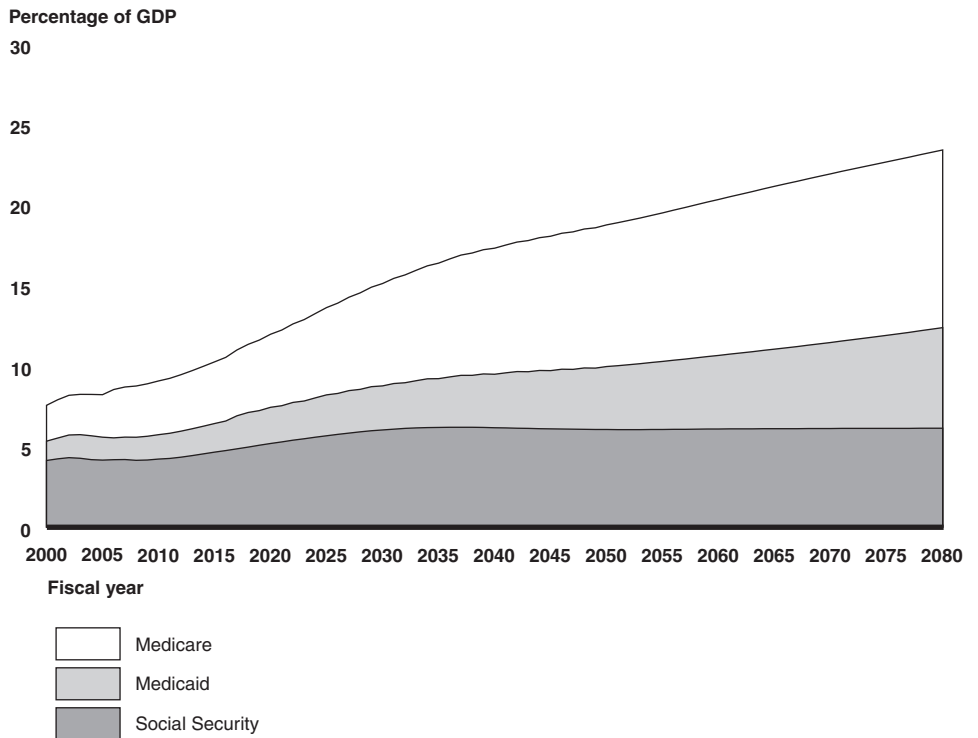
Figure 6: Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget and the Congressional Budget Office.

This growth—in particular rising health care spending—will have significant implications not only for the budget, but also for the economy as a whole. Figure 7 shows the total future draw on the economy represented by Social Security, Medicare, and Medicaid. Under the 2007 Trustees' intermediate estimates and CBO's 2005 midrange Medicaid estimates, spending for these entitlement programs combined will grow to over 15 percent of GDP in 2030 from today's 8.9 percent. Taken together, it is clear that Social Security, Medicare, and Medicaid represent an unsustainable burden on the federal budget, our economy, and future generations. Ultimately, the nation will have to decide what level of benefits and spending it wants and how it will pay for these benefits.

Figure 7: Social Security, Medicare, and Medicaid Spending as a Percentage of GDP



Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office

Note: Social Security and Medicare projections based on the intermediate assumptions of the 2007 Trustees' Reports. Medicaid projections based on CBO's January 2007 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under mid-range assumptions.

Although these three programs dominate the long-term outlook, they are not the only federal programs or activities that bind the future. The federal government undertakes a wide range of responsibilities, programs, and activities that may either obligate the government to future spending or create an expectation for such spending. Part of what we owe the future is leaving enough flexibility to meet whatever challenges arise. So beyond dealing with the “big 3,” we need to look at other policies that limit that flexibility—not to eliminate all of them but to at least be aware of them and make a conscious decision to reform them in a manner that will be responsible, equitable, and sustainable. GAO has described the range and measurement of such fiscal exposures—from explicit liabilities such as environmental cleanup requirements to the more implicit obligations presented by life-cycle costs of capital acquisition or disaster assistance.

Last year the U.S. government's major reported liabilities, social insurance commitments, and other fiscal exposures continued to grow. They now total approximately \$50 trillion—about four times the nation's total output (GDP) in fiscal year 2006—up from about \$20 trillion, or two times GDP in fiscal year 2000. Absent meaningful reforms, these amounts will continue to grow every second of every minute of every day due to continuing deficits, known demographic trends and compounding interest costs. While it is hard to make sense of what “trillions” means, one way to think of these numbers is that if we wanted to put aside today enough to cover these promises, it would take \$170,000 for each and every American, including newborns, or approximately \$440,000 per American household. Considering that median household income is about \$46,000, the household burden is about 9.5 times median income.

Just two weeks ago the Office of Management and Budget released its mid-session budget update—showing further improvement in this year's budget deficit. This “good news,” however, did not signal any improvement in the long-term outlook. The problem isn't this year's deficit—or even the deficit in 2012. The problem is that we are on an imprudent and unsustainable path.

Budget Controls Step 1: Stop Digging

When I appeared before this Committee in January⁴ I noted that I have previously urged a restitution of the statutory budget controls—including meaningful caps on discretionary spending and PAYGO on both the tax and spending sides of the ledger. Given the focus of this hearing, let me elaborate.

BEA—of which PAYGO was a part—had a number of strengths its predecessor, Gramm-Rudman-Hollings, lacked.⁵ Consistent with good practice in designing incentives, it focused on what Congress and the administration could control—spending and tax decisions—rather than on outcomes driven by external changes. In addition, enforcement was targeted—further encouraging compliance with the discretionary caps and

⁴GAO, *Long-Term Budget Outlook: Deficits Matter—Saving Our Future Requires Tough Choices Today*, [GAO-07-389T](#) (Washington, D.C.: Jan. 23, 2007) (Testimony before the House Committee on the Budget).

⁵Budget Enforcement Act of 1990, Pub. L. No. 101-508, title XIII, 104 Stat. 1388, 1388-573 (Nov. 5, 1990); Balanced Budget and Emergency Deficit Control Act of 1985, Pub. L. No. 99-177, title II, 99 Stat. 1037, 1038 (Dec. 12, 1985).

PAYGO rules. There is broad consensus among observers and analysts who focus on the budget that the controls contained in the Budget Enforcement Act constrained spending for much of the 1990s. However, since the BEA was focused on deficit reduction, its effectiveness deteriorated with the achievement of near-term surpluses. Although the BEA statutory PAYGO rules were extended twice, they expired in 2002.

Earlier this year, both the Senate and the House adopted rules reinstating PAYGO discipline on both sides of the ledger. Then why should we consider restoration of statutory PAYGO? The obvious answer ties to enforcement and duration: it may be easier to waive a rule than ignore a law, and a law can carry a penalty designed to encourage compliance. I will defer to Director Orszag and some of the technical experts on the next panel as to the details of how any sequester or enforcement mechanism should be designed. However, I will note that it should be unpleasant enough to encourage compliance but not so draconian as to be implausible. The goal of any penalty should be to encourage compliance, not to encourage avoidance or merely impose the penalty.

As I have said before, when you are in a hole, the first thing to do is stop digging. Discretionary caps and PAYGO are designed to stop the digging. There are two reasons to impose PAYGO on both the direct spending and the revenue side of the budget. The first is obvious—both affect the bottom line. The second—and perhaps as important—is that applying PAYGO only to spending is likely to lead to more programs being designed as tax preferences. Tax preferences are like a form of back door spending. As a result, they need to be subject to additional transparency and controls as well. We have previously reported⁶ on these tax expenditures, which are often aimed at policy goals similar to those of federal spending programs. Revenues forgone through tax expenditures—unless offset by increased taxes or lower spending—increase the unified budget deficit and federal borrowing from the public (or reduce the unified budget surplus available to reduce debt held by the public). Unlike discretionary spending programs, which are subject to periodic reauthorization and annual appropriation, tax expenditures are—like entitlement programs—permanent law and generally not subject to a recurring legislative process that would ensure systematic annual or periodic review. BEA's statutory

⁶GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, [GAO-05-690](#) (Washington D.C.: Sept. 23, 2005).

PAYGO regime applied to both mandatory spending and revenues—and so limited the ability to create or expand either spending entitlements or tax expenditures unless offsetting funds could be raised. Since tax provisions are not as visible in the budget as spending programs, there is already some incentive to use tax provisions rather than spending programs to accomplish programmatic ends; imposing controls on spending programs but not on tax provisions would only increase this incentive. It would be an unfortunate consequence if the restoration of the PAYGO rule were to lead to an increase in the portion of the budget on automatic pilot and therefore reduce both transparency and control.

Moving Beyond PAYGO: Process and Presentational Changes to Increase Transparency and Focus on Long-Term Consequences

The PAYGO requirement prevented legislation that lowered revenue, created new mandatory programs, or otherwise increased direct spending from increasing the deficit unless offset by other legislative actions. While PAYGO constrained the creation or legislative expansion of direct spending programs and tax cuts, it accepted the existing provisions of law as given. It was not designed to trigger—and it did not trigger—any examination of “the base.” Furthermore, cost increases in existing mandatory programs were exempt from control under PAYGO and could be ignored. However, constraining legislative actions that increase the cost of entitlements, mandatories, and tax expenditures is not enough. Looking ahead, the budget process will need to go beyond limiting expansions. Existing programs cannot be permitted to be on autopilot and grow to an unlimited extent. Since the spending for any given entitlement or other mandatory program is a function of the interaction between eligibility rules and the benefit formula—either or both of which may incorporate exogenous factors such as economic downturns—the way to change the path of spending for any of these programs is to change their rules or formulas. In January of last year, we issued a report on “triggers”—some measure that when reached or exceeded, would prompt a response connected to that program.⁷ By identifying significant increases in the spending path of a mandatory program relatively early and acting to constrain it, Congress may avert much larger and potentially disruptive financial challenges and program changes in the future. A similar approach could be applied to those tax expenditures that operate in many ways like mandatory spending programs. Some years ago, Mr. Chairman, you had suggested a kind of “look back” trigger—a requirement that the President

⁷GAO, *Mandatory Spending: Using Budget Triggers to Constrain Growth*, GAO-06-276 (Washington, D.C.: Jan. 31, 2006).

and the Congress monitor the path of existing entitlements and make an explicit determination about whether to accept growing costs or to take action to change the path.

I know it comes as no surprise to anyone in this room that I believe we need to increase the understanding of and focus on the longer term in our policy and budget debates. When I was here in January I spoke about some ideas I had been discussing with a number of Members of the House and Senate as well as other interested and concerned citizens and groups. Since then—at the request of some Members—I have had those ideas put into legislative language as a basis for discussion. Today I'd like to elaborate a little on some of those ideas. They fall into three broad categories: increased information and reporting by the executive branch—both in the President's budget proposal and in other statements for the public; more information for the Congress, and an annual GAO report. I will discuss each in turn. A summary of the proposal appears in appendix I.

I. Executive Branch Reporting & Information

A. Increased Information in the President's Budget Proposals

- **Annual Report on Fiscal Exposures:** The transparency of existing commitments would be improved by requiring OMB to report annually on existing fiscal exposures—including a concise list, description and cost information.⁸ As I noted before, these exposures range from explicit liabilities to implicit promises embedded in the structure of current programs. This should be provided as supplementary information in the President's budget along with information on the long-term costs of major tax expenditures. As appropriate and possible, showing tax expenditures, related spending programs and related credit programs that address the same policy area would facilitate oversight and reexamination by the Congress.
- **Information over a longer time horizon:** (1) The President's budget should include an estimate of the impact of any major spending or tax proposals on these fiscal exposures and on the long-term fiscal outlook; (2) The budget should provide year-by-year

⁸For more information on fiscal exposures, see GAO, *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, [GAO-03-213](#) (Washington, D.C.: Jan. 24, 2003).

data for 10 fiscal years rather than the current 5; and (3) The President's budget should include a statement of his budgetary goals for the next decade.

B. Executive Branch Reporting and Information—Summary Annual Report and Statement of Fiscal Sustainability

- **Summary Annual Report:** One of the things I am proudest of from my tenure as a public trustee for Social Security and Medicare is the creation of a Summary Report to accompany the annual Trustees report. This summary report presents key information in a way more accessible to the press and lay reader. I believe it has contributed to improved understanding about the condition of these programs. As the Comptroller General I sign the audit report on the Consolidated Financial Statements of the U.S. Government (CFS). Despite the fact that we must disclaim our opinion on the statements I believe they contain important information. The report is, however, too thick and very hard to read. I believe the Department of the Treasury (Treasury) should publish a summary financial report derived from the information in the audited CFS and the Comptroller General's audit report on it within 15 days of the issuance of that audit report.
- Every four years the Treasury should do more—it should prepare and publish a fiscal sustainability report including information and an assessment of the long-term fiscal sustainability of our current spending and revenue path. A number of other Organization for Economic Co-operation and Development (OECD) countries have begun to do fiscal sustainability reports as a way of looking ahead. Such a report permits the public and policymakers to look at the full range of government commitments rather than focusing only on new proposals.

II. Additional Information for the Congress

- If Congress is to balance short-term claims and long-term costs it must have information about the long-term cost implications of proposals that would result in a significant increase or decrease in revenues or spending. I recognize that estimates over a multi-decade period cannot be as precise as short-term estimates and that some programs are harder to cost out than Social Security. However, information about the path should be made available. For example, do costs double every decade?

III. GAO Report

- As the independent auditor of the federal government's Consolidated Financial Statements and an agency of the legislative branch without a day-to-day responsibility in the budget process, I believe GAO is in an excellent position to pull together periodic financial and fiscal information in a summary report similar to the fiscal stewardship report I issued January 31 of this year. If Congress does impose additional transparency requirements on the Executive Branch, then we are in a good position to look over how those requirements were implemented and to suggest what changes, if any, might be made.

Meeting the Long-Term Fiscal Challenge Requires Truth, Transparency, Cooperation and Compromise—and Action Should not be Delayed Further

I think we all know that there is no easy way out of the large and growing longer-term fiscal challenge we face. Economic growth is essential, but we cannot grow our way out of the problem. Based on reasonable assumptions the math does not come close to working. I have said that the first thing to do is stop digging—and the restoration of credible discretionary caps and PAYGO on both the spending and tax side of the ledger can help with that. Important as they are, however, they are not enough.

Fundamental reform of existing entitlement programs will be necessary to change the path of those programs. The fact that the long-term outlook is driven primarily by health care costs does not mean that the rest of the budget should be exempt from scrutiny. We have the opportunity to bring our government and its programs in line with 21st century realities.⁹ Those who believe we can solve this problem solely by cutting spending or raising taxes are not being realistic. The truth is we will also need to reform entitlement programs, re-prioritize and re-engineer other direct spending programs, and engage in comprehensive tax reform that generates additional revenue as a percent of the economy (compared to current and historical levels) in order to get the job done.

⁹GAO, *21st Century Challenges: Reexamining the Base of the Federal Government*, [GAO-05-325SP](#) (Washington, DC: February 2005) and *Suggested Areas for Oversight for the 110th Congress*, [GAO-07-235R](#) (Washington, D.C.: Nov. 17, 2006)

Concluding Remarks

I have long believed that the American people can accept difficult decisions as long as they understand why such choices are necessary. They need to be given the facts about the fiscal outlook: what it is, what drives it, and what it will take to address it. As most of you know, I have been investing a good deal of time in the Fiscal Wake-Up Tour (FWUT) led by the Concord Coalition. Scholars from both the Brookings Institution and the Heritage Foundation join with me and key Concord officials in laying out the facts and discussing the possible ways forward. In our experience, having these people with quite different policy views agree on the nature, scale and importance of the issue—and on the need to sit down and work together to develop a multi-dimensional solution to our longer-term fiscal challenge—resonates with the audiences.

The specific policy choices made to address this fiscal challenge are the purview of elected officials. The policy debate will reflect differing views of the role of government and differing priorities for our country. What the FWUT can do—and what I will continue to do—is lay out the facts, debunk various myths, discuss possible options and prepare the way for tough choices by elected officials. If the American people understand that there is no magic bullet—if they understand that

- we cannot grow our way out this problem;
- eliminating earmarks will not solve the problem;
- wiping out fraud, waste and abuse will not solve the problem;
- ending the “Global War on Terrorism”, exiting from Iraq, or cutting way back on defense will not solve the problem; and
- letting the recent tax cuts expire will not solve this problem;

then they can engage with you in a discussion about what government should do; how it should do it; and how we should pay for it without unduly mortgaging the future of our country, children, and grandchildren. This is a great nation, probably the greatest in history. We have faced many challenges in the past and we have met them. It is a mistake to underestimate the commitment of the American people to their country, children, and grandchildren; to underestimate their willingness and ability to hear the truth and support the decisions necessary to deal with this challenge. We owe it to our country, children and grandchildren to address our fiscal and other key sustainability challenges. The clock is ticking and time is working against us. The time for action is now.

Chairman Spratt, Mr. Ryan, Members of the Committee, let me repeat my appreciation for your commitment and concern in this matter. We at GAO stand ready to assist you in this important effort.

Scope and Methodology

My remarks are based largely on previous reports and testimonies, such as Long-Term Budget Outlook: Deficits Matter—Saving Our Future Requires Tough Choices Today ([GAO-07-389T](#)) and Budget Process: Better Transparency, Controls, Triggers, and Default Mechanisms Would Help to Address Our Large and Growing Long-term Fiscal Challenge ([GAO-06-761T](#)). We updated these testimonies with the results from our most recent long-term simulations in The Nation’s Long-Term Fiscal Outlook: April 2007 Update ([GAO-07-983R](#)).

Contact and Acknowledgments

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. For further information on this testimony, please contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov. Individuals making key contributions to this testimony include Jay McTigue, Assistant Director; Matthew Mohning, Senior Analyst and Melissa Wolf, Senior Analyst.

Appendix I: Transparency in Accounting and Budgeting: Legislative Recommendations of the Comptroller General

Supplemental Reporting in the President's Annual Budget Submission

- Produce as supporting information to the budget an annual Statement of Fiscal Exposures, including:
 - a concise list, dollar estimates, and descriptions of exposures, including—
 - information from Consolidated Financial Statements of the U.S. Government on total liabilities, contingencies, commitments, and net present value of social insurance program payments, and
 - long-term cost (> 40 years) of major tax expenditures, presented together with related spending or credit programs in the same policy area , if appropriate
 - dollar estimate of the effect on these exposures of all major spending or tax proposals
 - an assessment of methodologies and data used to produce such cost estimates
 - a graphic presentation of the dollar amounts of exposures presented as percentage of GDP for each year covered
- Budget horizon expanded to cover 10 fiscal years
- President shall include in the budget a statement of the President's budgetary goals for a 10-year period in terms of surplus or deficit and in terms of surplus or deficit as a percentage of GDP

Summary Financial Report for the General Public

- Pursuant to OMB form and content guidance, Treasury shall annually publish a summary financial report on the U.S. Government derived from the information in the audited annual Consolidated Financial Statements of the U.S. Government.
 - Report shall be in format and of length, content and sophistication for general American public
 - Report shall include condensed summary of CG's audit report on the CFS
- First annual report due no later than January 30, 2008 [Note: This requires an amendment to GMRA (31 USC 331(e)(1)) to make audited CFS due by January 15 each year and an amendment to the Accountability for Tax Dollars Act (31 USC 3515(a)) to make agency financial statements due by November 30 each year.]

Statement of Fiscal Sustainability

- Pursuant to OMB form and content guidance, Treasury to prepare and make public every four years an assessment of the long-term sustainability of all major federal programs and activities. Statement of Fiscal Sustainability shall include:
 - PV of projected receipts and outlays of federal programs and activities for 75-year and infinite horizons, including separate reporting for social insurance programs

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- Statement of annual cash flows for programs and activities
 - Reconciliation of changes from prior period Statement
 - Presentation of information using different measures of sustainability and estimates of financial burden on different age cohorts and other demographics
 - Explanation of assumptions used and sensitivity analyses
 - First Statement of Fiscal Sustainability due no later than March 31, 2008

Additional Cost Information on Legislative Proposals before Adoption

- Before a Member of the House or Senate calls up for consideration on the floor of either House a bill or joint resolution or an amendment thereto that contains a proposal that would result in a significant increase or decrease in revenues or in mandatory spending, that Member shall obtain from CBO a statement of the long-term costs of such bill, joint resolution, or amendment.
 - CBO and Budget committees to jointly define “significant” for each Congress
 - “Long-term costs” are those financial costs over at least a 40-year period
- The statement from CBO shall be provided to the Members of either House, as applicable, and shall be published in the Congressional Record

GAO Report on the Financial Condition of the U.S. Government

- The Comptroller General shall annually report to the Congress his assessment of the financial condition of the U.S. Government. Report shall include analyses of—
 - the Consolidated Financial Statement (CFS) and the Summary Financial Report
 - results of GAO’s latest long-term fiscal simulations
 - the President’s Statement of Fiscal Exposures
 - the adequacy of information regarding long-term cost implications of existing and proposed policies
 - the Statement of Fiscal Sustainability
 - statutorily-required CBO and JCT reports for the prior fiscal year
- First annual report due no later than January 31, 2009

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