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LONG-TERM FISCAL OUTLOOK

Action Is Needed to Avoid the Possibility of a Serious Economic Disruption in the Future

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

January 29, 2008

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Highlights

Highlights of GAO-08-411T, a testimony before the Committee on the Budget, U.S. Senate

Why GAO Did This Study

GAO has for many years warned that our nation is on an imprudent and unsustainable fiscal path.

During the past 3 years, the Comptroller General has traveled to 25 states as part of the Fiscal Wake-Up Tour. Members of this diverse group of policy experts agree that finding solutions to the nation's long-term fiscal challenge will require bipartisan cooperation, a willingness to discuss all options, and the courage to make tough choices.

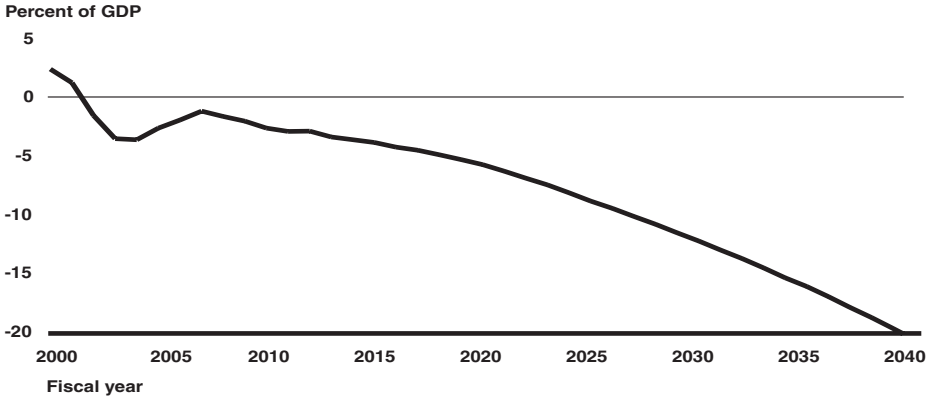
At the request of Chairman Conrad and Senator Gregg, the Comptroller General discussed the long-term fiscal outlook, our nation's huge health care challenge, and the shrinking window of opportunity for action.

To view the full product, including the scope and methodology, click on GAO-08-411T. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

What GAO Found

As we enter 2008, what we call the long-term fiscal challenge is not in the distant future. Already the first members of the baby boom generation have filed for early Social Security retirement benefits—and will be eligible for Medicare in only 3 years. Simulations by GAO, the Congressional Budget Office (CBO), and others all show that despite a 3-year decline in the budget deficit, we still face large and growing structural deficits driven primarily by rising health care costs and known demographic trends. Under any plausible scenario, the federal budget is on an imprudent and unsustainable path.

Federal Surpluses and Deficits Under GAO's Alternative Simulation



Source: GAO's August 2007 analysis.

Rapidly rising health care costs are not simply a federal budget problem; they are our nation's number one fiscal challenge. Growth in health-related spending is the primary driver of the fiscal challenges facing the state and local governments. Unsustainable growth in health care spending is a systemwide challenge that also threatens to erode the ability of employers to provide coverage to their workers and undercut our ability to compete in a global marketplace. Addressing the unsustainability of health care costs is a societal challenge that calls for us as a nation to fundamentally rethink how we define, deliver, and finance health care in both the public and the private sectors.

The passage of time has only worsened the situation: the size of the challenge has grown and the time to address it has shrunk. The longer we wait the more painful and difficult the choices will become, and the greater the risk of a very serious economic disruption.

It is understandable that the Congress and the administration are focused on the need for a short-term fiscal stimulus. However, our long-term challenge increases the importance of careful design of any stimulus package—it should be timely, targeted, and temporary. At the same time, creating a capable and credible commission to make recommendations to the next Congress and the next president for action on our longer-range and looming fiscal imbalance is called for.

Chairman Conrad, Senator Gregg, and Members of the Committee:

I appreciate this invitation to talk with you about our nation's long-term fiscal outlook as we enter 2008—and the challenge it continues to present for the future of America and Americans. Your decision to dedicate a hearing to this important issue again demonstrates the seriousness with which you and this Committee view our nation's large and growing fiscal challenge. Senators Conrad and Gregg, thank you for your leadership.

I wish I could say the long-term outlook is different than when I last appeared before you on Halloween—but as all of you know, it is not. Under any plausible scenario, the federal budget is on an imprudent and unsustainable path. Long-term fiscal simulations by GAO, the Congressional Budget Office (CBO), and others all show that despite a 3-year decline in the federal government's unified budget deficit, we still face large and growing structural deficits driven primarily by rising health care costs and known demographic trends. The passage of time only serves to worsen this situation: the size of the challenge has grown and the time to address it has shrunk. Already the first members of the baby boom generation have filed for early Social Security retirement benefits—and will be eligible for Medicare in only 3 years. Although Social Security is important because of its size, the real driver of the long-term fiscal outlook is health care spending. Medicare and Medicaid are both large and projected to continue growing rapidly in the future.

Everyone on this Committee is well aware of the nature and importance of the challenge we face. Today, therefore, I will emphasize a few key points:

- Although recent declines in the annual budget deficit are good news, our longer-term fiscal outlook is worse—and absent meaningful action we will face spiraling levels of debt.
- Our long-term fiscal challenge is primarily a health-care challenge.
- We face an increasing need and yet a shrinking window of opportunity for action.

My remarks are based on GAO's previous work, including various reports and testimonies on our nation's long-term fiscal challenges, health care, and the need for budget process reform. These efforts were conducted in accordance with generally accepted government auditing standards.

Despite Several Years of Declining Annual Budget Deficits, the Long-Term Outlook Has Worsened

Between fiscal years 2003 and 2007 the unified budget deficit declined. Certainly declining deficits are better than rising deficits. But this decline in the unified deficit is not an indicator that our challenge has eased. First, even this short-term deficit is understated: It masks the fact that the federal government has been using the Social Security surplus to offset spending in the rest of government for many years. If we exclude that Social Security surplus, the on-budget deficit—what I call the operating deficit—in fiscal year 2007 was more than double the size of the unified deficit. For example, the Department of the Treasury (Treasury) reported a unified deficit of $163 billion and an on-budget deficit of $344 billion in fiscal year 2007. The accrual-based net operating deficit reported in the *Financial Report of the United States Government* was also significantly higher than the unified deficit—$276 billion for fiscal year 2007. This measure provides more information on the longer-term implications of today's policy decisions and operations than does either cash-based figure, but it too offers an incomplete picture of the long-term fiscal challenge.[1]

As we recently reported,[2] several countries have begun preparing fiscal sustainability reports to help assess the implications of their public pension and health care programs and other challenges in the context of overall sustainability of government finances. European Union members also annually report on longer-term fiscal sustainability. The goal of these reports is to increase public awareness and understanding of the long-term fiscal outlook in light of escalating health care cost growth and population aging, to stimulate public and policy debates, and to help policymakers make more informed decisions. These countries used a variety of measures, including projections of future revenue and spending and summary measures of fiscal imbalance and fiscal gaps, to assess fiscal sustainability. Last year, we recommended that the United States should

[1]For a discussion of how the accrual and cash deficits relate to each other, see GAO, *Understanding Similarities and Differences between Accrual and Cash Deficits*, GAO-07-117SP (Washington, D.C.: December 2006) and forthcoming update.

[2]GAO, *Budget Issues: Accrual Budgeting Useful in Certain Areas but Does Not Provide Sufficient Information for Reporting on Our Nation's Longer-Term Fiscal Challenge*, GAO-08-206 (Washington, D.C.: Dec. 20, 2007).

prepare and publish a long-range fiscal sustainability report every 2 to 4 years.[3]

Despite these improvements in short-term deficits, the long-term outlook continued to move in the wrong direction. Even in 2001—in a time of annual surpluses—GAO's long-term simulations showed a long-term challenge, but at that time it was more than 40 years out. Although an economic slowdown, 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 also major factors, but they are not the only actions that challenge fiscal discipline. For example, one might also question the current farm bill in the face of reported record farm income.

As the Committee knows, CBO's latest projections show the deficit rising in response to a weakening economy. Neither this increase nor the recent declines tell us much about our long-term path. Rather, our long-term path must inform how we deal with the near-term weakness.

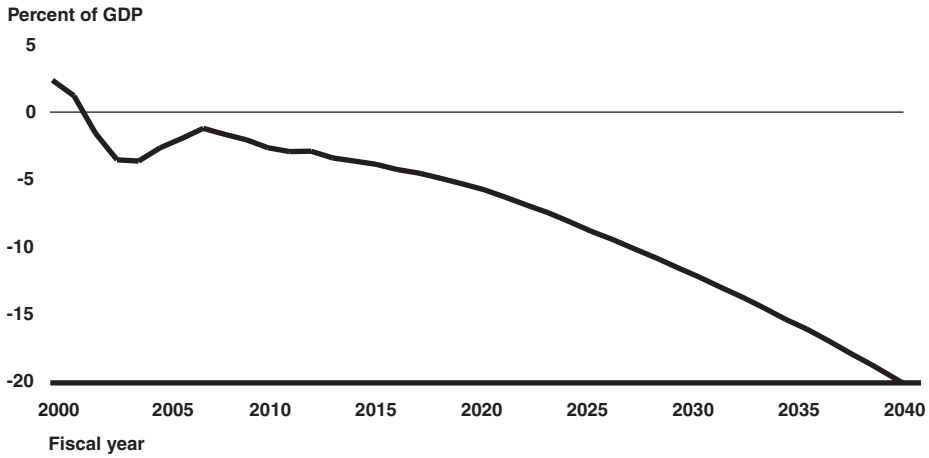
Our real challenge then is not this year's deficit or even next year's; it is how to change our current path so that growing deficits and debt levels do not swamp our ship of state. Health care costs are still growing much faster than the economy and our population is still aging. The retirement of the baby boom generation and the rising health care costs will soon place unprecedented and long-lasting stress on the federal budget, raising debt held by the public to unsustainable levels.

Figure 1 shows GAO's simulation of the deficit path based on recent trends and policy preferences. In this we assume that the expiring tax cuts are extended through 2017—and then revenues are brought to their historical level as a share of gross domestic product (GDP)—that discretionary

[3]GAO, *Long-Term Fiscal Challenge: Additional Transparency and Controls Are Needed*, GAO-07-1144T (Washington, D.C.: July 25, 2007), and *Long-Term Budget Outlook: Deficits Matter—Saving Our Future Requires Tough Choices Today*, GAO-07-389T (Washington, D.C.: Jan. 23, 2007).

spending grows with the economy and no structural changes are made to Social Security, Medicare, or Medicaid.[4]

Figure 1: Unified Federal Surpluses and Deficits Under GAO's Alternative Simulation



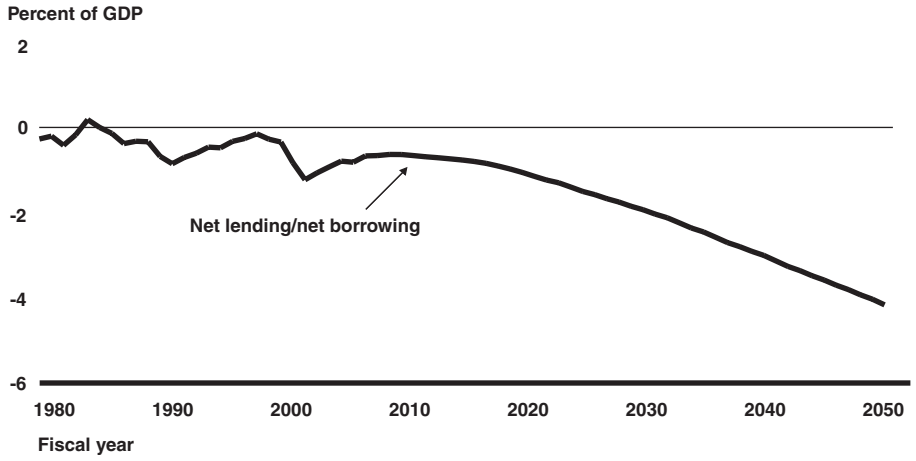
Source: GAO's August 2007 analysis.

Rapidly rising health care costs are not simply a federal budget problem; they are our nation's number one fiscal challenge. As shown in figure 2, GAO's fiscal model demonstrates that state and local governments—absent policy changes—will also face large and growing fiscal challenges beginning within the next few years.[5] 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 primary driver of the fiscal challenges facing the state and local governments.

[4]Social Security and Medicare spending are based on the 2007 Trustees' intermediate projections. Medicare spending is adjusted using the Centers for Medicare and Medicaid Services' estimates assuming that physician payments are not reduced as required under current law. Medicaid spending is based on CBO's December 2005 long-term projections under midrange assumptions. Additional information about GAO's simulation model, assumptions, data, and results can be found at http://www.gao.gov/special.pubs/longterm/.

[5]See GAO, *State and Local Governments: Growing Fiscal Challenges Will Emerge During the Next 10 Years,* GAO-08-317 (Washington D.C.: Jan. 22, 2008), and *State and Local Governments: Persistent Fiscal Challenges Will Likely Emerge within the Next Decade,* GAO-07-1080SP (Washington, D.C.: July 18, 2007).

Figure 2: State and Local Fiscal Imbalance

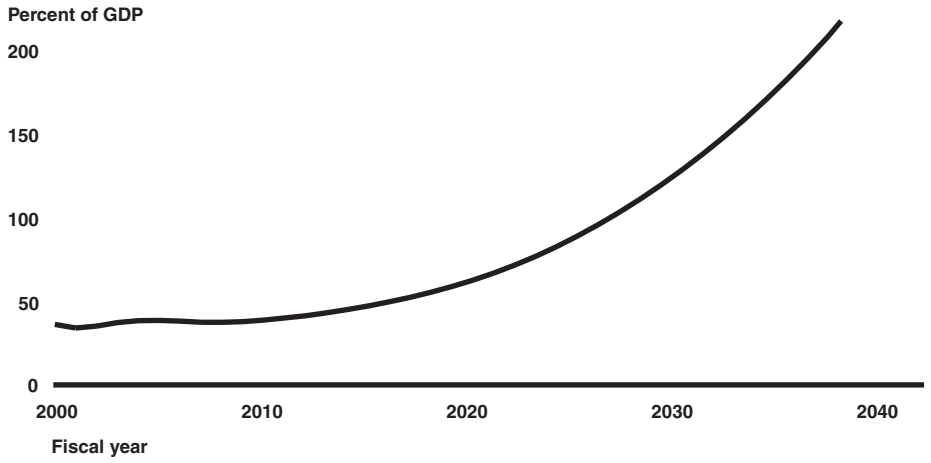


Source: Historical data from National Income and Product Accounts; GAO analysis.

Note: The state and local net lending/net borrowing measure is similar to the federal unified budget surplus/deficit in that it includes all governmental receipts and all expenditures.

For the federal government increased spending and rising deficits will drive a rising debt burden. At the end of fiscal year 2007, debt held by the public exceeded $5.0 trillion. Figure 3 shows that this growth in our debt cannot continue unabated without causing serious harm to our economy. But this is only part of the story. The federal government has been spending the surpluses in the Social Security and other trust funds for years; if we include debt held by those funds, our total debt is much higher—$9.0 trillion. On September 29, 2007, the statutory debt limit had to be raised for the third time in 4 years; between the end of fiscal year 2003 and the end of fiscal year 2007 the debt limit had to be increased by one-third. Although borrowing by one part of the federal government from another may not have the same economic and financial implications as borrowing from the public, it represents a claim on future resources and hence a burden on future taxpayers and the future economy.

Figure 3: Debt Held by the Public Under GAO's Alternative Simulation



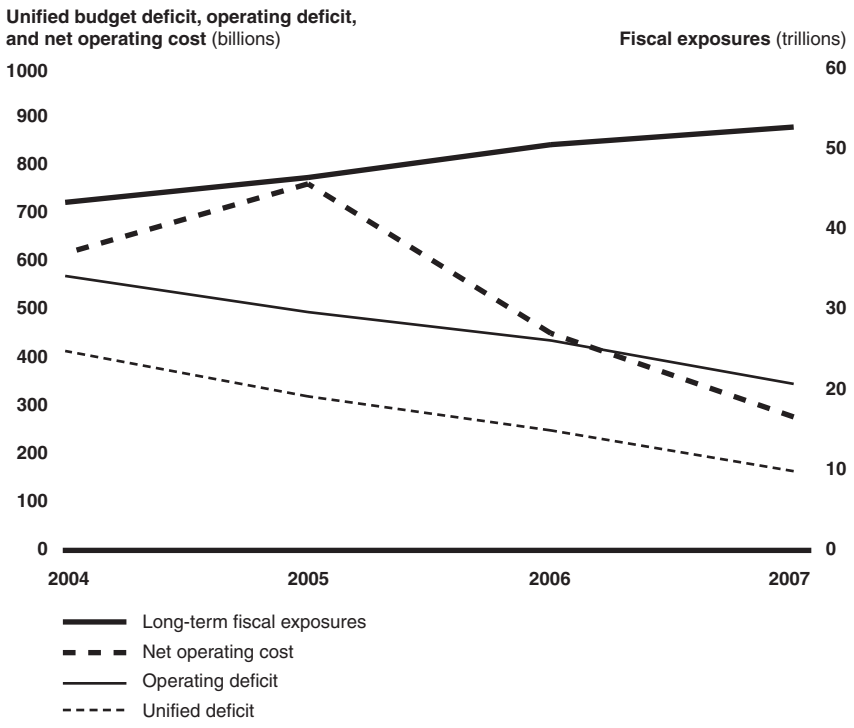
Source: GAO's August 2007 analysis.

As alarming as the size of our current debt is, it excludes many items, including the gap between future promised and funded Social Security and Medicare benefits, veterans' health care, and a range of other commitments and contingencies that the federal government has pledged to support. If these items are factored in, the total burden in present value dollars is estimated to be about $53 trillion.[6] I know it is hard to make sense of what "trillions" means. One way to think about it is this: Imagine we decided to put aside and invest today enough to cover these promises tomorrow. It would take approximately $455,000 per American household—or $175,000 for every man, woman, and child in the United States.

Clearly, despite some progress in addressing our short-term deficits, we have not made progress on our long-term fiscal challenge. In fact, we have lost and continue to lose ground absent meaningful action (see fig. 4).

[6]The total burden is estimated based on the federal government's liabilities, commitments, and contingencies, including the present value of future Social Security and Medicare benefits as reported in the fiscal year 2007 *Financial Report of the United States Government*.

Figure 4: Short-Term Fiscal Position versus Long-Term Fiscal Exposures



Source: GAO analysis.

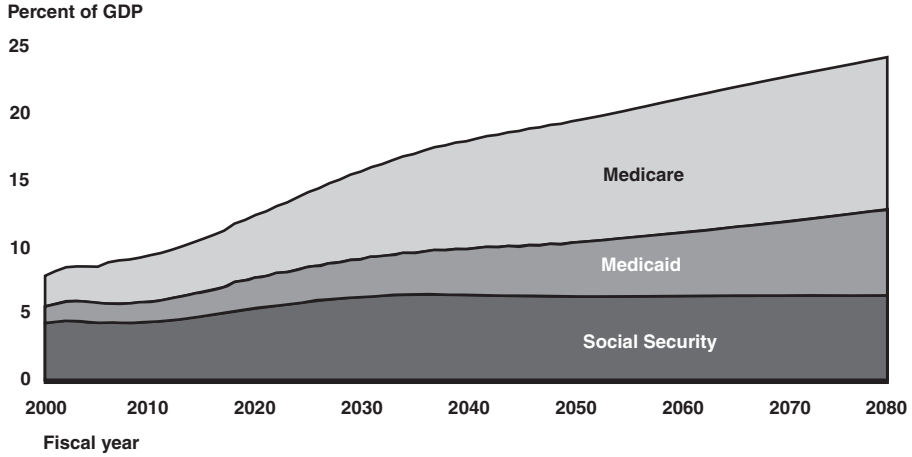
Notes: Data are from CBO and Treasury. Estimates of the federal government's long-term fiscal exposures are based on the *Financial Report of the United States Government*. These estimates include the present value of future social insurance obligations over a 75-year time horizon as of January 1. These estimates have not been adjusted for inflation.

Our Long-Term Fiscal Outlook Is Driven by Health Care

Although Social Security is a major part of the fiscal challenge, it is far from our biggest challenge. Spending on Medicare and Medicaid represents a much larger, faster growing, and more immediate problem. In fact, the federal government's obligations for Medicare Part D alone exceed the unfunded obligations for Social Security. Health care spending systemwide continues to grow at an unsustainable pace, eroding the ability of employers to provide coverage to their workers and undercutting their ability to compete internationally. Finally, despite spending far more of our economy on health care than other nations, the United States has above average infant mortality, below average life expectancy, and the largest percentage of uninsured individuals. In short, our health care system is badly broken.

Medicare and Medicaid spending threaten to consume an untenable share of the budget and economy in the coming decades. The federal government has essentially written a "blank check" for these programs. In contrast, other industrialized nations have put their health care programs on a budget, even ones with national health care plans. We should consider imposing limits on federal spending for health care sooner rather than later. Figure 5 shows the total future draw on the economy represented by Social Security, Medicare, and Medicaid. Although Social Security in its current form will grow from 4.2 percent of GDP today to 6.3 percent in 2080, Medicare and Medicaid's burden on the economy will almost quadruple—from 4.7 percent to 17.7 percent of the economy. Unlike Social Security, which grows larger as a share of the economy and then levels off, Medicare and Medicaid continue to grow during this projection period. Furthermore, these projections assume growth in Medicare and Medicaid spending of GDP per capita plus about 1 percent on average—a rate that is significantly below recent historical experience of about 2.5 percent above GDP per capita. But even with this "optimistic" assumption, the outlook is daunting. It is clear that health care is the main driver of our long-term challenge. In fact, if there is one thing that could bankrupt America, it's runaway health care costs. We must not allow that to happen.

Figure 5: Social Security, Medicare, and Medicaid Spending as a Percent 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.

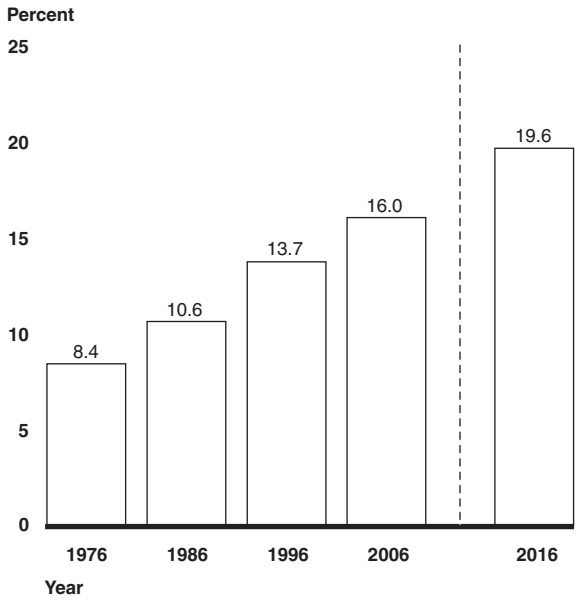
Notes: Social Security and Medicare projections are based on the intermediate assumptions of the 2007 Trustees' reports. Medicaid projections are based on CBO's August 2007 short-term Medicaid estimates and CBO's December 2005 long-term Medicaid projections under midrange assumptions.

Changing the path of health care spending is much more complicated than dealing with Social Security. Unlike Social Security, Medicare spending growth rates reflect not only a burgeoning beneficiary population, but also the escalation of health care costs at rates well exceeding general rates of inflation. The growth of medical technology has contributed to increases in the volume and complexity of health care services, and information on the cost and quality of health care is not readily available.

Systemwide Growth in Health Care Spending Driven by Certain Factors

Public and private health care spending continues to rise because of increased medical prices and increased utilization due to growth in the number, or volume, of services per capita, and use of more intense, or complex, services. Moreover, the actual costs of health care consumption are not transparent. Consumers are largely insulated by third-party payers from the cost of health care decisions. As shown in figure 6, total health care spending is absorbing an increasing share of our nation's GDP. From 1976 through 2006, total public and private spending on health care grew from about 8 percent to 16 percent of GDP. Total health care spending is projected to grow to about 20 percent of GDP by 2016.

Figure 6: Health Care Spending as a Percent of GDP



Source: Centers for Medicare and Medicaid Services, Office of the Actuary.

Notes: The figure for 2016 is projected. The most current data available on health care spending are for 2006.

Addressing the unsustainability of health care costs is a major competitiveness and societal challenge that calls for us as a nation to fundamentally rethink how we define, deliver, and finance health care in both the public and the private sectors. A major difficulty is that our current system does little to encourage informed discussions and decisions about the costs and value of various health care services. These decisions are very important when it comes to cutting-edge drugs and medical technologies, which can be very expensive but offer no advantage over their alternatives.

Medical technology is a major contributor to growth in health care spending. For example, one study found that the average amount spent per heart attack case increased nearly $10,000 per case after controlling for inflation, or 4.2 percent real growth per year between 1984 and 1998.[7] Nearly half of the cost increases resulted from people getting more intensive technologies—such as cardiac catheterization—over time. In some cases, new technology can lead to overdiagnosis and the excessive use of resources. One study cites the use of spinal magnetic resonance imaging (MRI) as one example.[8] Researchers find that diagnostic spinal MRI sometimes reveals abnormalities having no clinical relevance. According to the study, some physicians act on this information and perform unnecessary surgery that can lead to complications.

Obesity, smoking, and other population risk factors can lead to expensive chronic conditions; the increased prevalence of such conditions—for example, diabetes and heart disease—drives growth in the utilization of health care resources and therefore in spending. Obesity has been the subject of several recent studies focusing on associated health care cost increases. For example, one study attributes 27 percent of the growth in inflation-adjusted per capita spending between 1987 and 2001 to the rising prevalence of obesity and higher relative per capita spending among obese individuals.[9]

[7]David M. Cutler and Mark McClellan, "Is Technological Change in Medicine Worth It?" *Health Affairs*, vol. 20, no. 5 (September/October 2001).

[8]See Richard A. Deyo, "Cascade Effects of Medical Technology," *Annual Review of Public Health,* vol. 23 (May 2002).

[9]Kenneth E. Thorpe et al., "The Impact of Obesity on Rising Medical Spending," *Health Affairs Web Exclusive*, http://content.healthaffairs.org/cgi/content/abstract/hlthaff.w4.480 (Oct. 20, 2004).

Fundamental Challenges in Containing Health Care Spending Growth

Both public and private payers face fundamental challenges in the struggle to contain health care spending growth. One of the challenges involves the unbridled use of technology and society's unmanaged expectations. Experts note that the nation's general tendency is to treat patients with available technology when there is the slightest chance of benefit to the patient, even though the costs may far outweigh the benefit to society as a whole. They note that the discipline of technology assessment has not kept pace with technology advancements.[10]

Today's employers, which finance a substantial share of the health care of the privately insured population, are seeking more information on health care technology costs and benefits. Although the Food and Drug Administration (FDA), for example, evaluates new medical products based on safety and efficacy data submitted by manufacturers, it does not evaluate whether the new products are cost-effective compared with existing products used for the same treatment indications. In turn, Medicare, which generally relies on FDA approval decisions, does not evaluate whether new technologies are superior, either clinically or economically, compared with technologies already covered and paid for by the program. Further exacerbating the situation, consumers, spurred by advertising and the Internet, demand access to new medical technology without knowledge of its value, safety, or efficacy.

Another cost containment challenge for all payers relates to the market dynamics of health care compared with other economic sectors. In an ideal market, informed consumers prod competitors to offer the best value. However, without reliable comparative information on medical outcomes, quality of care, and cost, consumers are less able to determine the best value. Insurance masks the actual costs of goods and services, providing little incentive for consumers to be cost-conscious. Similarly, clinicians must often make decisions in the absence of universal medical standards of practice. Under these circumstances, medical practices vary across the nation, as evidenced by wide geographic variation in per capita spending and outcomes, even after controlling for patient differences in health status.

[10]GAO, *Health Care: Unsustainable Trends Necessitate Comprehensive and Fundamental Reforms to Control Spending and Improve Value,* GAO-04-793SP (Washington, D.C.: May 2004).

Solutions to Health Care Cost Growth Are Likely to Be Incremental

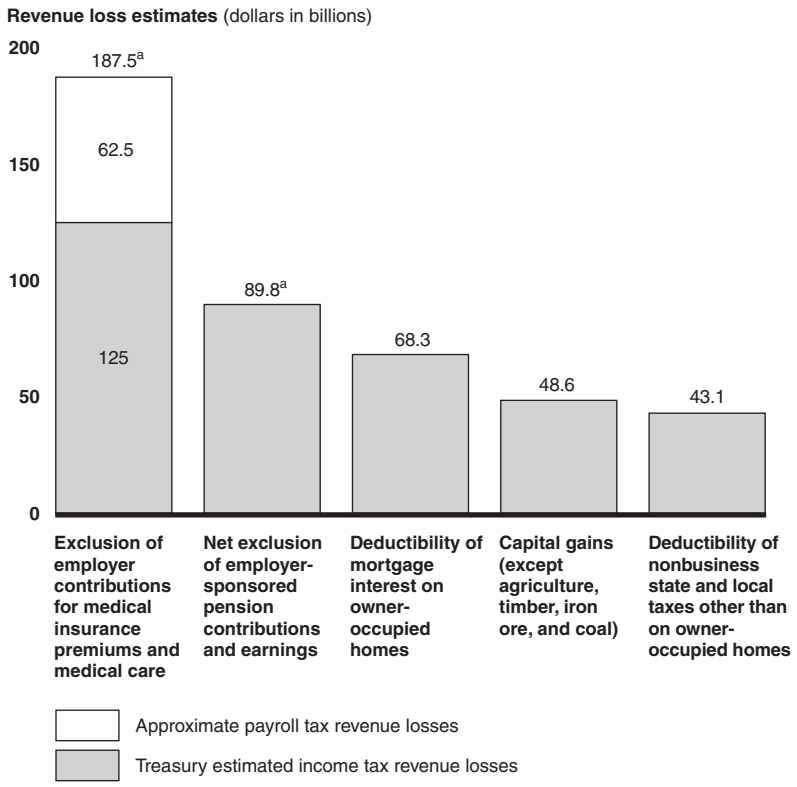
In recent years, policy analysts have discussed a number of incremental reforms aimed at moderating health care spending, in part by unmasking health care's true costs. Some call for devising new insurance strategies to make health care costs more transparent to patients. Currently, many insured individuals pay relatively little out of pocket for care at the point of delivery because of comprehensive health care coverage—precluding the opportunity to sensitize these patients to the cost of their care.

Other steps include reforming the policies that give tax preferences to insured individuals and their employers. These policies permit the value of employees' health insurance premiums to be excluded from the calculation of their taxable earnings and exclude the value of the premium from the employers' calculation of payroll taxes for both themselves and employees. Tax preferences also exist for health savings accounts and other consumer-directed plans. These tax exclusions represent a significant source of forgone federal revenue and work at cross-purposes to the goal of moderating health care spending.

Proposals have been made to better target tax preferences to low-income individuals and to change the tax treatment to allow consumers the same tax advantages whether they receive their health insurance through their employers or purchase it on their own.

As figure 7 shows, in 2006 the tax expenditure responsible for the greatest revenue loss was that for the exclusion of employer contributions for employees' insurance premiums and medical care.

Figure 7: Health Care Was the Nation's Top Tax Expenditure in Fiscal Year 2006



Source: GAO analysis of OMB, Analytical Perspectives, Budget of the United States Government, Fiscal Year 2008.

[a]The value of employer-provided health insurance is excluded from Medicare and Social Security payroll taxes. Some researchers have estimated that payroll tax revenue losses amounted to more than half of the income tax revenue losses in 2004, and we use this estimate for 2006. The research we are aware of dealt only with health care, therefore the 50 percent figure may not apply to other items that are excluded from otherwise applicable income and payroll taxes.

Another area conducive to incremental change involves provider payment reforms. These reforms are intended to induce physicians, hospitals, and other health care providers to improve on quality and efficiency. For example, studies of Medicare patients in different geographic areas have found that despite receiving a greater volume of care, patients in higher use areas did not have better health outcomes or experience greater satisfaction with care than those living in lower use areas. Public and private payers are experimenting with payment reforms designed to foster the delivery of care that is proven to be both better clinically and more cost-effective. Ideally, identifying and rewarding efficient providers and encouraging inefficient providers to emulate best practices will result in

better value for the dollars spent on care. The development of uniform standards of practice could lead to more cost-effective treatments designed to achieve the same outcomes.

The problem of escalating health care costs is complex because addressing federal programs such as Medicare and the federal-state Medicaid program will need to involve change in the health care system of which they are a part—not just within federal programs. This will be a major societal challenge that will affect all age groups. Because our health care system is complex, with multiple interrelated pieces, solutions to health care cost growth are likely to be incremental and require a number of extensive efforts over many years. In my view, taking steps to address the health care cost dilemma systemwide puts us on the right path for correcting the long-term fiscal problems posed by the nation's health care entitlements. I have suggested in the past that we consider four elements as pillars of any major health care reform effort:

- Provide universal access to basic and essential health care.
- Impose limits on federal spending for health care.
- Implement national, evidence-based medical practice standards to improve quality, control costs, and reduce litigation risks.
- Take steps to ensure that all Americans assume more personal responsibility and accountability for their own health and wellness.

As a nation, we need to weigh unlimited individual wants against broader societal needs and decide how responsibility for financing health care should be divided among employers, individuals, and government in an affordable and sustainable manner. Ultimately, we may need to define a set of basic and essential health care services to which every American is ensured access. Individuals wanting additional services, and insurance coverage to pay for them, would have that choice but would be required to allocate their own resources. Clearly, such a dramatic change would require a long transition period—all the more reason to act sooner rather than later.

The Window of Opportunity Is Narrowing

As we enter 2008, what we call the long-term fiscal challenge is not in the distant future. In fact, the first baby boomers already have filed for early retirement benefits and will be eligible for Medicare benefits in less than 3 years. The budget and economic implications of the baby boom generation's retirement have already become a factor in CBO's 10-year baseline projections and that impact will only intensify as the baby boomers age. As the share of the population over 65 climbs, demographics

will interact with rising health care costs. The longer we wait, the more painful and difficult the choices will become. Simply put, our nation is on an imprudent and unsustainable long-term fiscal path that is getting worse with the passage of time.

The financial markets are noticing. Approximately 3 years ago, Standard and Poor's issued a publication stating that absent policy changes, the U.S. government's debt-to-GDP ratio was on track to mirror ratios associated with speculative-grade sovereigns. Within the last month, Moody's Investors Service issued its annual report on the United States. In that report, they noted their concern that absent Medicare and Social Security reforms, the long-term fiscal health of the United States and our current Aaa bond rating were at risk. These not too veiled comments serve to note the significant longer-term interest rate risk that we face absent meaningful action to address our longer-range challenge as well. Higher longer-term interest costs would only serve to complicate our fiscal, economic, and other challenges in future years.

As you are aware, during the past 3 years, I have traveled to 25 states as part of the Fiscal Wake-Up Tour. During the tour, it has become clear that the American people are starved for two things from their elected officials—truth and leadership.

Last fall, I was pleased to join you when you announced your proposal to create a Bipartisan Task Force for Responsible Fiscal Action.[11] As I said at the time, I believe it offers one potential means to achieve an objective we all should share: taking steps to make the tough choices necessary to keep America great and to help make sure that our country's, children's, and grandchildren's future is better than our past. By introducing your proposal to create a Bipartisan Task Force for Responsible Fiscal Action, you have shown the kind of leadership that is essential for us to successfully address the long-term fiscal challenge that lies before us. And I want to note you are not alone. Several other members on both sides of

[11]The Bipartisan Task Force for Responsible Fiscal Action Act of 2007 (S. 2063, Sept. 18, 2007) would establish a task force to address, and report to the President and Congress on, the nation's long-term fiscal imbalances, including those attributable to the Medicare and Social Security programs and the gap between their projected revenues and expenditures. Representatives Cooper and Wolf have also introduced a companion bill to the Conrad-Gregg proposal (H.R. 3655, Sept. 25, 2007).

the political aisle and on both sides of Capitol Hill have also introduced legislation seeking to accomplish similar objectives.[12]

But we do need to act. The passage of time is shrinking the window for action. Albert Einstein said the most powerful force in the universe is compound interest and today the miracle of compounding is working against us. After 2009 the Social Security cash surplus—which has cushioned and masked the impact of our imprudent fiscal policy—will begin to shrink, putting pressure on the rest of the budget. The Medicare Hospital Insurance trust fund is already in a negative cash flow situation. I hope we do not wait to act until the Social Security trust fund turns to negative cash flow in 2017. Demographics narrow the window for other reasons as well. People need time to prepare for and adjust to changes in benefits. There has been general agreement that there should be no change in Social Security benefits for those currently in or near retirement. If we wait until the baby boom generation has retired, that becomes much harder and much more expensive.

Mr. Chairman, Senator Gregg, Members of the Committee, meeting this long-term fiscal challenge overarches everything. It is our nation's largest sustainability challenge, but it is not our only one. If we want to position the United States to meet the challenges of this century both abroad and at home, we must also tackle other challenges, including reexamining what government does and how it does business. Last month, we published a new report that lays out a possible path for change. The report is entitled *A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21st Century Challenges*.[13] It provides 13 potential tools for Congress and the administration to use to begin to confront our long-term fiscal and other challenges. I hope you find this report useful in facilitating discussions and decisions about various challenges facing our great nation in the 21st century.

Today it is understandable that many Americans and their elected representatives are concerned about recent market declines and a slowing

[12]Senator Voinovich introduced The Securing America's Future Economy Commission Act (S. 304, Jan. 16, 2007), or SAFE Commission Act that would establish a commission, among other things, to develop legislation to address the imbalance between long-term federal spending commitments and projected revenues. Representatives Cooper and Wolf have also introduced a companion bill to the Voinovich proposal (H.R. 3654, Sept. 25, 2007).

[13]GAO-08-93SP (Washington, D.C.: Dec. 17, 2007).

economy. We have an obligation, however, to look at both the short term and the long term. Whatever Congress and the President decide to do in response to our current economic weakness, it is important to be mindful of the danger posed by our long-term fiscal path. This long-term challenge increases the importance of careful design of any stimulus package—it should be timely, targeted, and temporary.

Budgets, deficits, and long-term fiscal and economic outlooks are not just about numbers, they are also about values. It is time for all Americans, especially baby boomers to recognize our collective stewardship obligation for the future. In doing so, we need to act soon because time is working against us. We must make choices that may be difficult and unpleasant today to avoid passing an even greater burden on to future generations. Let us not be the generation that sent the bill for its conspicuous consumption to its children and grandchildren.

Thank you Mr. Chairman, Mr. Gregg, and Members of the Committee for having me today. We at GAO, of course, stand ready to assist you and your colleagues as you tackle these important challenges.

Contacts and Acknowledgments

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