



Highlights of [GAO-06-761T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The nation's long-term fiscal outlook is daunting. While the budget process has not caused the problems we face, the absence of meaningful budget controls and other mechanisms has served to compound our fiscal challenge. Conversely, a process that illuminates the looming fiscal pressures and provides appropriate incentives can at least help decision makers focus on the right questions. Meaningful budget controls and other mechanisms can also help to assure that difficult but necessary choices are made.

The budget process needs to provide incentives and signals to address commitments the government has already made and better transparency for and controls on the long-term fiscal exposures being considered. Improvements would include the restoration of realistic discretionary caps; application of pay-as-you-go (PAYGO) discipline to both mandatory spending and revenue legislation; the use of "triggers" for some mandatory programs; and better reporting of fiscal exposures.

www.gao.gov/cgi-bin/getrpt?GAO-06-761T.

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

BUDGET PROCESS

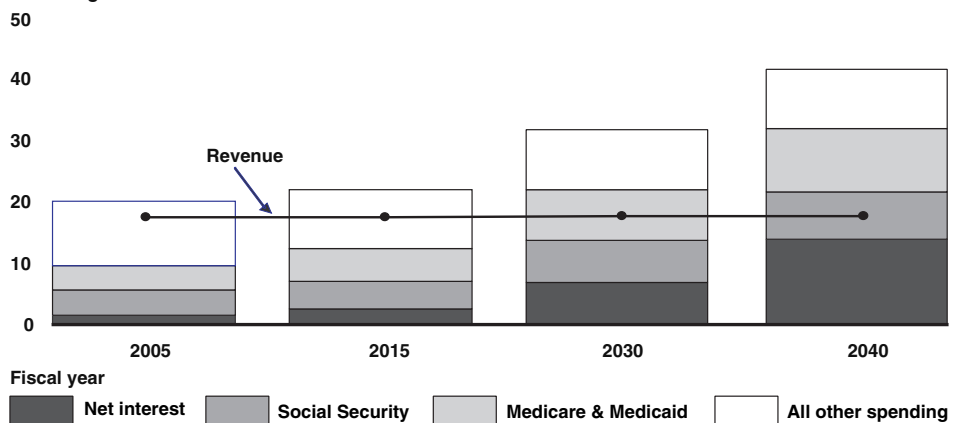
Better Transparency, Controls, Triggers, and Default Mechanisms Would Help to Address Our Large and Growing Long-term Fiscal Challenge

What GAO Found

Over the long term we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. Continuing on this imprudent and unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path will also increasingly constrain our ability to address emerging and unexpected budgetary needs and increase the burdens that will be faced by our children, grandchildren, and future generations.

The budget process itself cannot solve this problem, but it can help policymakers make tough but necessary choices. If citizens and government officials come to better understand various fiscal exposures and their implications for the future, they are more likely to insist on prudent policy choices today and sensible levels of fiscal risk in the future.

Composition of Spending as a Share of GDP Assuming Discretionary Spending Grows with GDP after 2006 and All Expiring Tax Provisions Are Extended
Percentage of GDP



Source: GAO's May 2006 analysis.

Note: This includes certain tax provisions that expired at the end of 2005, such as the increased alternative minimum tax exemption amount.

We cannot grow our way out of our long-term fiscal challenge. We must make tough choices and the sooner the better. A multi-pronged approach is needed: (1) revise existing budget processes and financial reporting requirements, (2) restructure existing entitlement programs, (3) reexamine the base of discretionary and other spending, and (4) review and revise tax policy and enforcement programs—including tax expenditures. Everything must be on the table and a credible and effective Entitlement and Tax Reform Commission may be necessary. Fundamentally we need a top-to-bottom review of government activities to ensure their relevance and fit for the 21st century and their relative priority.