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Accountability \* Integrity \* Reliability

Comptroller General  
of the United States

United States Government Accountability Office  
Washington, DC 20548

March 13, 2008

The Honorable John Culberson  
House of Representatives

Dear Mr. Culberson:

Per our conversation, this letter discusses our nation's deteriorating financial condition and the need for timely action to turn things around.

Our real fiscal problem is not our current deficit and debt levels but where we are headed absent meaningful reforms. Given the retirement of the baby boomers and soaring health care costs, government outlays are set to rise dramatically. The federal government's liabilities and current unfunded commitments for future spending on Social Security and Medicare are now estimated at \$53 trillion and are growing by \$2 to \$3 trillion a year. This effectively translates into an IOU of around \$455,000 per American household. Clearly, our government has already made a range of promises that it is unlikely to be able to keep.

Because the personal savings rate in this country is so low, we have been turning to overseas investors to finance our nation's debt. Foreign investors, particularly foreign governments, have greatly increased their holdings of U.S. Treasury securities, and some of these government lenders may, either today or over time, have political and economic interests that diverge from our own. The risk is that some of them may eventually use their U.S. financial holdings as leverage against us.

If we continue as we have, policymakers will eventually have two options: slash government programs and services that the American people depend upon or raise taxes to levels that would seriously harm America's economic growth and competitiveness. In my view, we probably have at most a 5- to 10-year window of opportunity to act. Inaction comes with a steep price tag. Recent projections from Moody's and an analyst at Standard & Poor's suggest that, absent policy changes, our nation is heading toward "junk bond" status as early as 2020. By 2030, without reforms to entitlement programs and spending or tax policies, income tax rates would have to more than double to prevent a continued erosion of our financial position.

Fortunately, by facing facts and making meaningful changes to the budgetary process, entitlement programs, other spending, and tax policies, we can avoid this fiscal train wreck and ensure that America's future is better than its part. Our fiscal clock is ticking, however, and the time for action is now.

I appreciate the opportunity to express my thoughts on this important subject.

Sincerely yours,

David M. Walker  
Comptroller General  
of the United States