

# GAO Highlights

Highlights of [GAO-20-561](#), a report to congressional requesters

## Why GAO Did This Study

Our nation faces serious challenges at a time when the federal government is highly leveraged in debt by historical norms. The imbalance between revenue and spending built into current law and policy have placed the nation on an unsustainable long-term fiscal path. Fiscal rules and targets can be used to help frame and control the overall results of spending and revenue decisions that affect the debt.

GAO was asked to review fiscal rules and targets. This report (1) assesses the extent to which the federal government has taken action to contribute to long-term fiscal sustainability through fiscal rules and targets, and (2) identifies key considerations for designing, implementing, and enforcing fiscal rules and targets in the U.S.

GAO compared current and former U.S. fiscal rules to literature on the effective use of rules and targets; reviewed CBO reports and relevant laws; and interviewed experts. GAO conducted case studies of national fiscal rules in Australia, Germany, and the Netherlands.

## What GAO Recommends

Congress should consider establishing a long-term fiscal plan that includes fiscal rules and targets, such as a debt-to-GDP target, and weigh GAO's key considerations to ensure proper design, implementation, and enforcement of these rules and targets.

The Department of the Treasury and other entities provided technical comments, which GAO incorporated as appropriate.

View [GAO-20-561](#). For more information, contact Jeff Arkin, at (202) 512-6806 or [arkinj@gao.gov](mailto:arkinj@gao.gov)

September 2020

# THE NATION'S FISCAL HEALTH

## Effective Use of Fiscal Rules and Targets








### What GAO Found

In fiscal year 2019, debt held by the public reached 79 percent of gross domestic product (GDP). The government's fiscal response to COVID-19 combined with the severe economic contraction from the pandemic will substantially increase federal debt. The Congressional Budget Office (CBO) projected that debt held by the public will reach 98 percent of GDP by the end of fiscal year 2020. The nation's fiscal challenges will require attention once the economy has substantially recovered and public health goals have been attained.

GAO has previously reported that a long-term plan is needed to put the government on a sustainable fiscal path. Other countries have used well-designed fiscal rules and targets—which constrain fiscal policy by controlling factors like expenditures or revenue—to contain excessive deficits. For example, Germany's constitution places limits on its deficits. The U.S. federal government has previously enacted fiscal rules, such as those in the Budget Control Act of 2011. However, current fiscal rules have not effectively addressed the misalignment between spending and revenues over time.

GAO identified key considerations to help Congress if it were to adopt new fiscal rules and targets, as part of a long-term plan for fiscal sustainability (see table).

### Key Considerations for Designing, Implementing, and Enforcing Fiscal Rules and Targets

<b>Alignment with Fiscal Policy Goals and Objectives</b>		Setting clear goals and objectives can anchor a country's fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.
<b>Design Tradeoffs and Features</b>		The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, and the time frames over which the rules apply.
<b>Legal Framework and Permanence</b>		The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or nonbinding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.
<b>Integration with Budgetary Processes</b>		Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.
<b>Flexibility to Address Emerging Issues</b>		Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.
<b>Clear Roles for Supporting Institutions</b>		Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.
<b>Transparency and Communication</b>		Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.

Source: GAO analysis of literature review and interviews. | [GAO-20-561](#)