

United States Government Accountability Office

Saving
Our Future
requires
Tough Choices Today

Fiscal Wake-up Tour

Cincinnati, OH

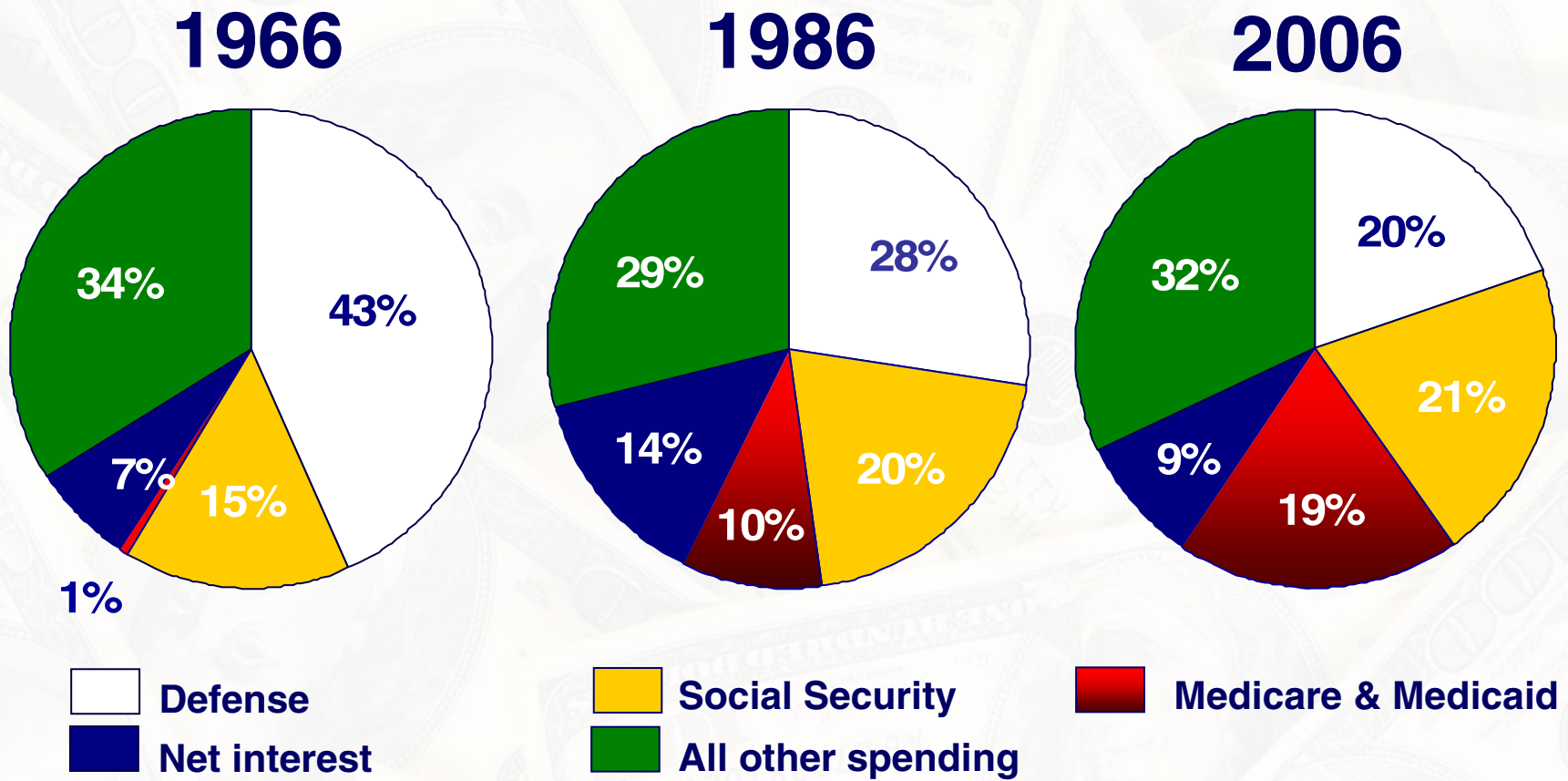
March 9, 2007

The Honorable David M. Walker
Comptroller General of the United States



GAO-07-624CG

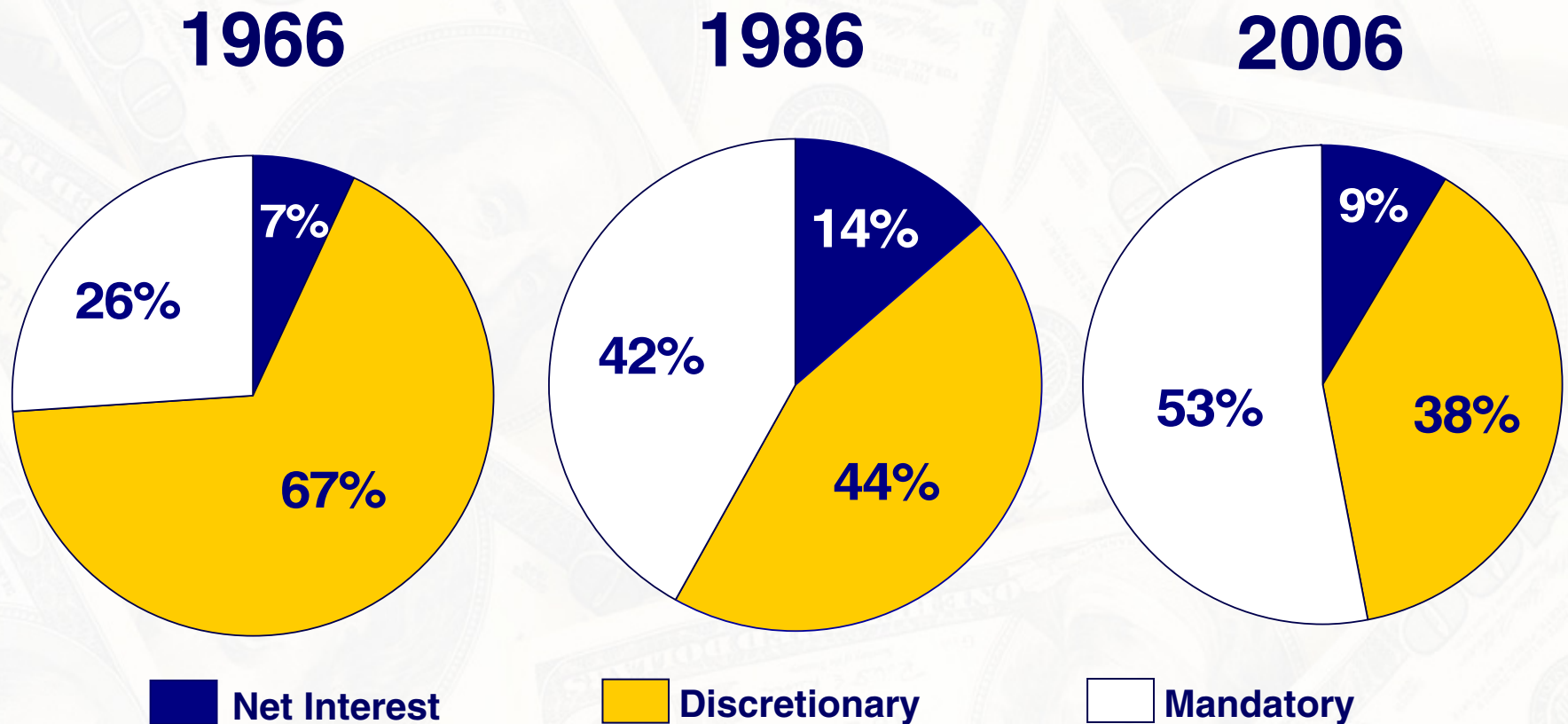
Composition of Federal Spending



Source: Office of Management and Budget.

Note: Numbers may not add to 100 percent due to rounding.

Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

Fiscal Year 2005 and 2006 Deficits and Net Operating Costs

	Fiscal Year 2005	Fiscal Year 2006
	(\$ Billion)	
On-Budget Deficit	(494)	(434)
Unified Deficit^a	(318)	(248)
Net Operating Cost^b	(760)	(450)

Sources: The Office of Management and Budget and the Department of the Treasury.

^aIncludes \$173 billion in Social Security surpluses for fiscal year 2005 and \$185 billion for fiscal year 2006; \$2 billion in Postal Service surpluses for fiscal year 2005 and \$1 billion for fiscal year 2006.

^bFiscal year 2005 and 2006 net operating cost figures reflect significant but opposite changes in certain actuarial costs. For example, changes in interest rates and other assumptions used to estimate future veterans' compensation benefits increased net operating cost by \$228 billion in 2005 and reduced net operating cost by \$167 billion in 2006. Therefore, the net operating costs for fiscal years 2005 and 2006, exclusive of the effect of these actuarial cost fluctuations, were (\$532) billion and (\$617) billion, respectively.

Major Reported Long-Term Fiscal Exposures (\$ trillions)

	2000	2006	% Increase
• Explicit liabilities	\$6.9	\$10.4	52
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & contingencies	0.5	1.3	140
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	38.8	197
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	6.4	
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	11.3	
<ul style="list-style-type: none"> • Future Medicare Part B benefits 	6.5	13.1	
<ul style="list-style-type: none"> • Future Medicare Part D benefits 	--	7.9	
Total	\$20.4	\$50.5	147

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30. Totals may not add due to rounding. Percentage increases are based on actual data and may differ from increases calculated from rounded data shown in table.

Understanding the Size of Major Reported Fiscal Exposures

Our fiscal burden can be translated and compared as follows:

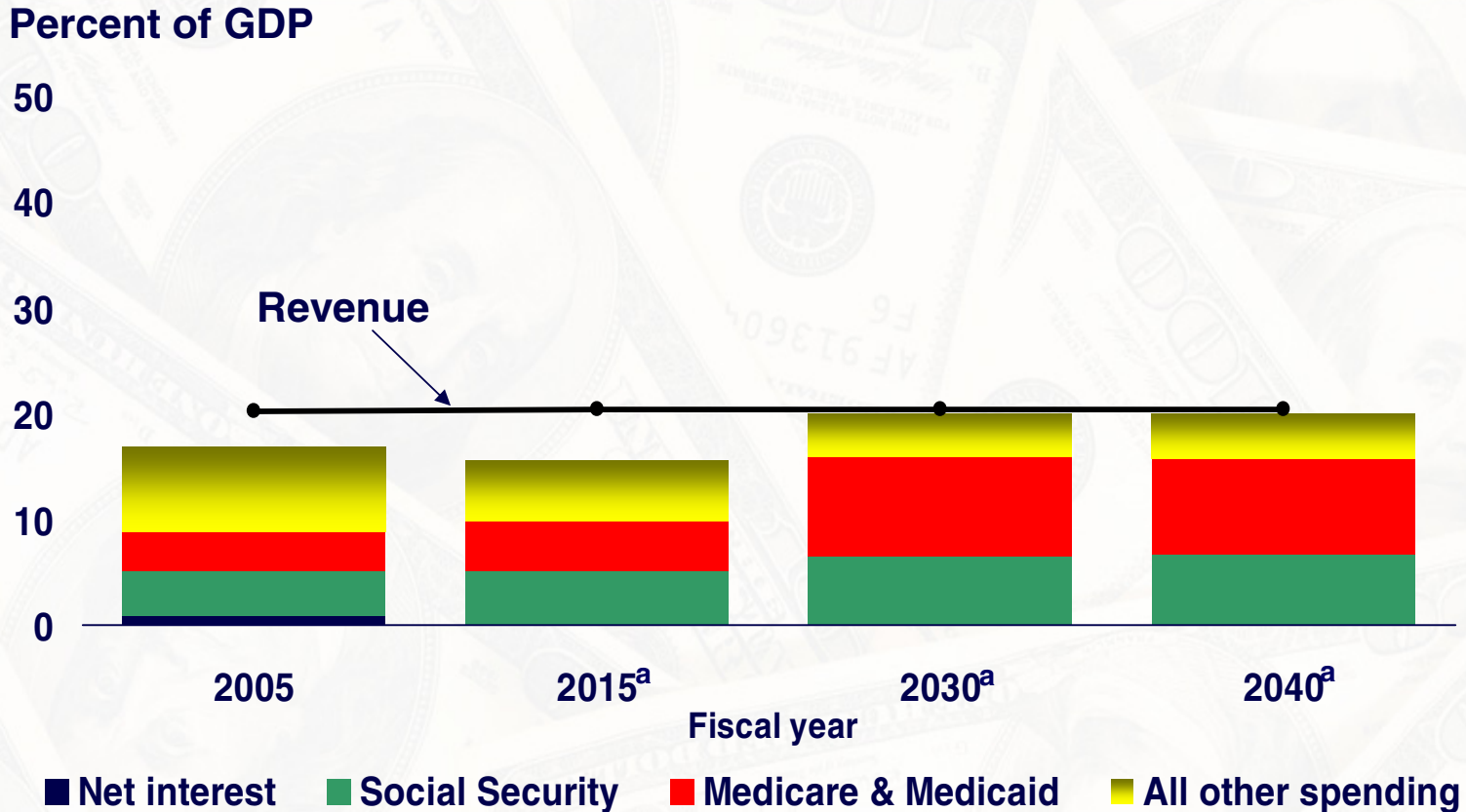
	2006
Major reported fiscal exposures	\$50.5 trillion
Total household net worth	\$53.3 trillion
Ratio of fiscal exposures to net worth	95 percent
Burden	
Per person	\$170,000
Per full-time worker	\$400,000
Per household	\$440,000
Income	
Median household income	\$46,326
Disposable personal income per capita	\$31,519
Ratio of household burden to median income	9.5

Sources: GAO analysis of data from the Department of the Treasury, Federal Reserve Board, U.S. Census Bureau and Bureau of Economic Analysis.

Potential Fiscal Outcomes

Under Baseline Extended (January 2001)

Revenues and Composition of Spending as a Share of GDP



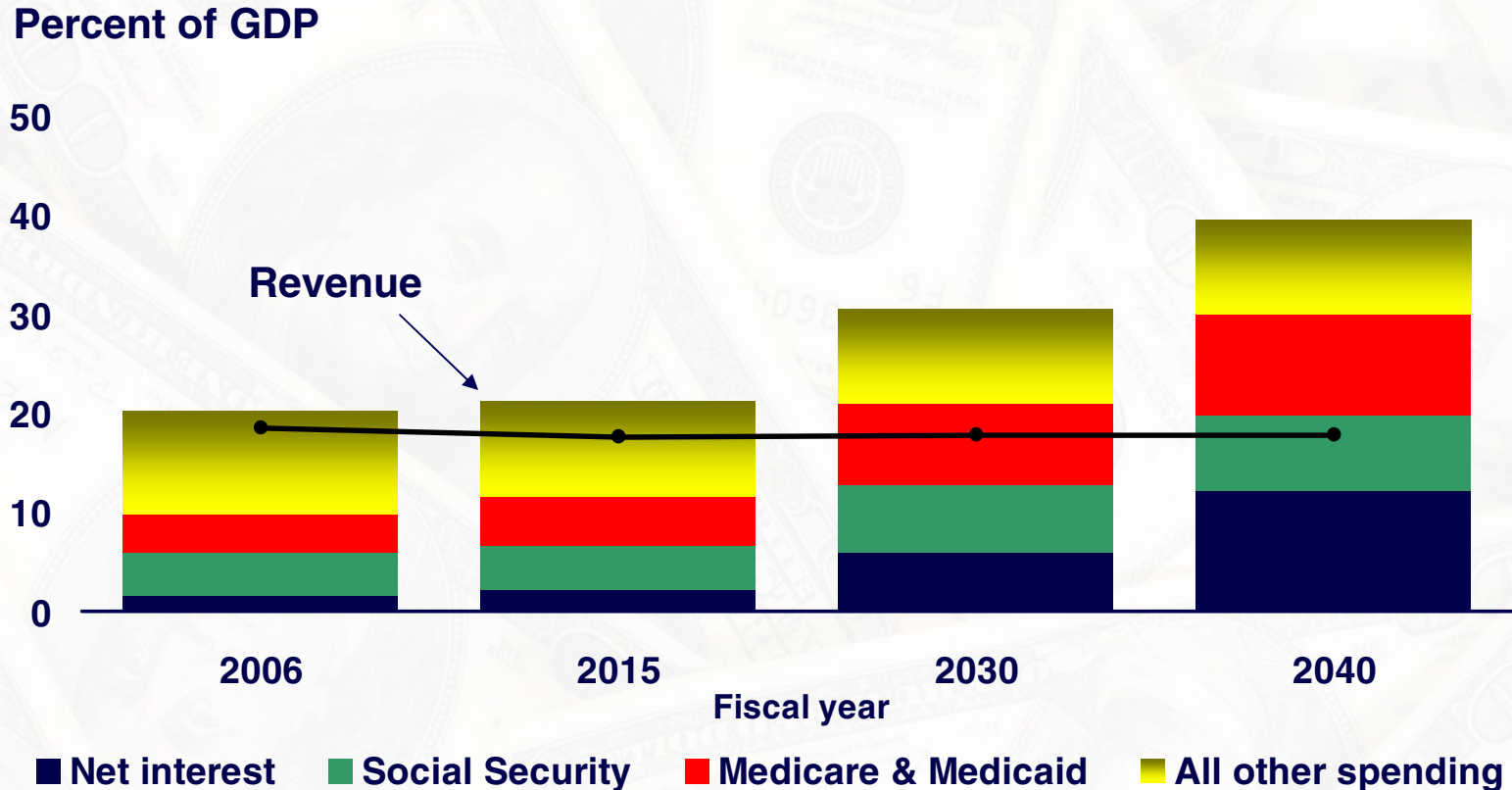
Source: GAO's January 2001 analysis.

Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2017 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 action to offset the impact of bracket creep and to modify or offset the AMT.

^aAll other spending is net of offsetting interest receipts.

Potential Fiscal Outcomes

Alternative Simulation—Discretionary Spending Grows with GDP
and Expiring Tax Provisions Extended (January 2007)
Revenues and Composition of Spending as a Share of GDP



Source: GAO's January 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 is held constant—implicitly assuming action to offset the impact of bracket creep and to modify the offset of AMT.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by 60 percent or
 - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years
- During the 1990s, the economy grew at an average 3.2 percent per year
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required

The Way Forward: A Three-Pronged Approach

1. Improve Financial Reporting, Public Education, and Performance Metrics
2. Strengthen Budget and Legislative Processes and Controls
3. Fundamental Reexamination & Transformation for the 21st Century (i.e., entitlement programs, other spending, and tax policy)

*Solutions Require Active Involvement from
both the Executive and Legislative Branches*

Key National Indicators

- **WHAT:** A portfolio of economic, social, and environmental outcome-based measures that could be used to help assess the nation's and other governmental jurisdictions' position and progress
- **WHO:** Many countries and several states, regions, and localities have already undertaken related initiatives (e.g., Australia, New Zealand, Canada, United Kingdom, Oregon, Silicon Valley (California) and Boston)
- **WHY:** Development of such a portfolio of indicators could have a number of possible benefits, including
 - Serving as a framework for related strategic planning efforts
 - Enhancing performance and accountability reporting
 - Informing public policy decisions, including much needed baseline reviews of existing government policies, programs, functions, and activities
 - Facilitating public education and debate as well as an informed electorate
- **WAY FORWARD:** Consortium of key players housed by the National Academies domestically and related efforts by the OECD and others internationally

Key National Indicators: Where the United States Ranks

The United States may be the only superpower, but compared to most other OECD countries on selected key economic, social, and environmental indicators, on average, the U.S. ranks

16 OUT OF 28

OECD Categories for Key Indicators (2006 OECD Factbook)

• Population/Migration	• Energy	• Environment	• Quality of Life
• Macroeconomic Trends	• Labor Market	• Education	• Economic Globalization
• Prices	• Science & Tech.	• Public Finance	

Source: 2006 OECD Factbook.

Moving the Debate Forward

- **The Sooner We Get Started, the Better**

- The miracle of compounding is currently working against us
- Less change would be needed, and there would be more time to make adjustments
- Our demographic changes will serve to make reform more difficult over time

- **Need Public Education, Discussion, and Debate**

- The role of government in the 21st Century
- Which programs and policies should be changed and how
- How government should be financed

**These Challenges Go Beyond
Numbers and Dollars—
It's About**

VALUES & PEOPLE

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On the Web

Web site: www.gao.gov/cghome.htm

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