Saving Our Future
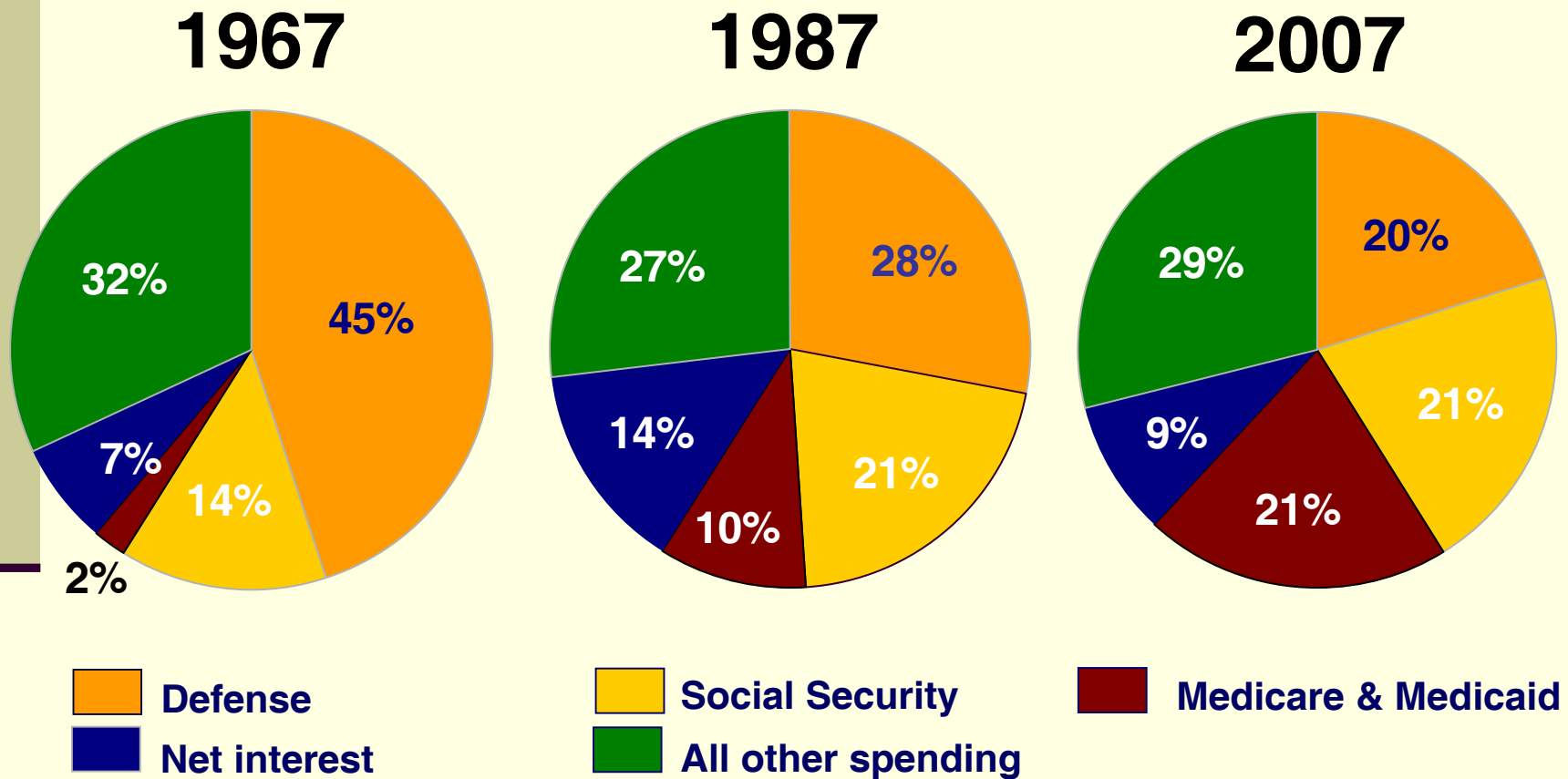
Requires Tough Choices Today

Fiscal Wake-up Tour
St. Louis, MO — April 28, 2008
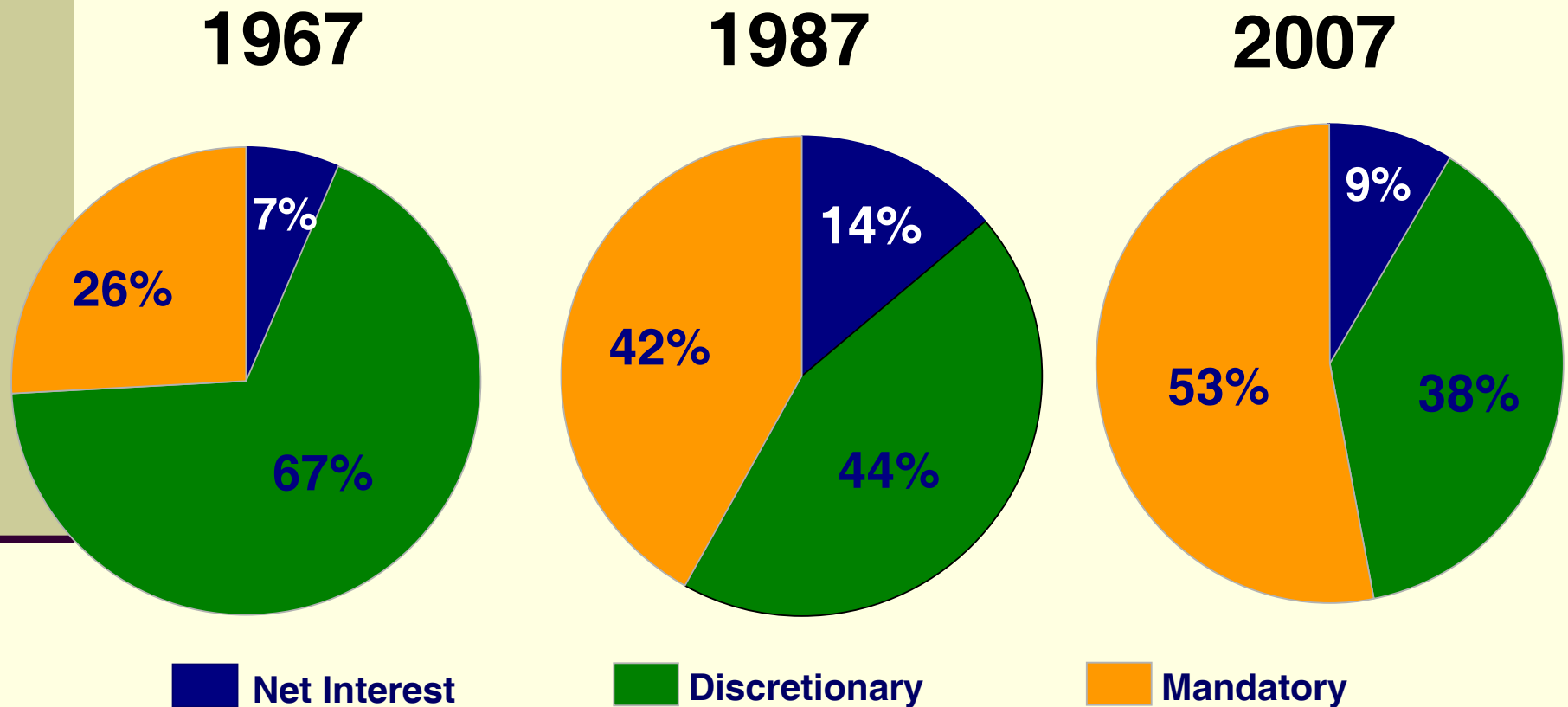
David M. Walker
President and CEO
The Peter G. Peterson Foundation
and
Former Comptroller General of the United States

Composition of Federal Spending

1967

32%
45%
7%
14%
2%

1987

27%
28%
14%
10%
21%

2007

29%
20%
9%
21%
21%

■ Defense	■ Social Security	■ Medicare & Medicaid
■ Net interest	■ All other spending	

Source: GAO analysis of Office of Management and Budget data.

Federal Spending for Mandatory and Discretionary Programs

1967

- 7% Net Interest
- 26% Mandatory
- 67% Discretionary

1987

- 14% Net Interest
- 42% Mandatory
- 44% Discretionary

2007

- 9% Net Interest
- 53% Mandatory
- 38% Discretionary

Legend:
- Net Interest
- Discretionary
- Mandatory

Source: GAO analysis of Office of Management and Budget data.

Fiscal Year 2006 and 2007 Deficits and Net Operating Costs

	Fiscal Year 2006	Fiscal Year 2007
	($ Billion)	
On-Budget Deficit	(434)	(344)
Unified Deficit[a]	(248)	(163)
Net Operating Cost	(450)	(276)

Sources: GAO analysis of Office of Management and Budget and Department of the Treasury data.

[a]Includes $185 billion in Social Security surpluses for fiscal year 2006 and $186 billion for fiscal year 2007; $1 billion in Postal Service surpluses for fiscal year 2006 and a $5 billion deficit for fiscal year 2007.

Short-term Fiscal Position versus Long-term Fiscal Exposures

Long-term Fiscal Exposures

Net Operating Cost

Unified Deficit

Unified budget deficit, operating deficit, and net operating cost (billions)

1000
900
800
700
600
500
400
300
200
100
0

Fiscal exposures (trillions)

60
50
40
30
20
10
0

2004   2005   2006   2007
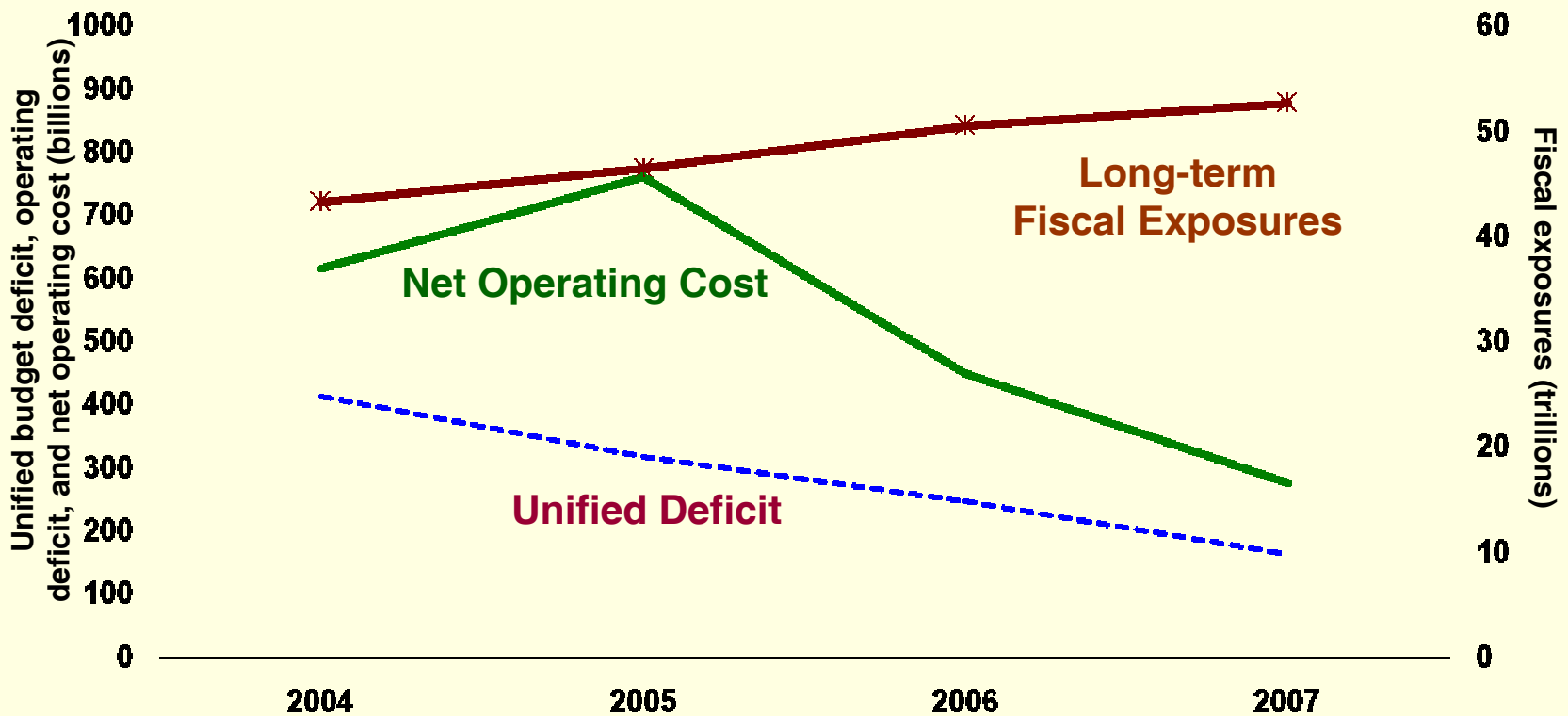
Source: GAO analysis.

Note: Data are from the Congressional Budget Office and the Department of Treasury. Estimates of the federal government's long-term fiscal exposures are based on the Financial Report of the U.S. Government. These estimates include the present value of future social insurance obligations over a 75-year time horizon as of January 1st of the preceding year. These estimates have not been adjusted for inflation.

Major Fiscal Exposures
($ trillions)

	2000	2007	% Increase
■ **Explicit liabilities**	**$6.9**	**$10.8**	**57**
■ Publicly held debt			
■ Military & civilian pensions & retiree health			
■ Other			
■ **Commitments & contingencies**	**0.5**	**1.1**	**97**
■ E.g., PBGC, undelivered orders			
■ **Implicit exposures**	**13.0**	**40.8**	**213**
■ Future Social Security benefits	3.8	6.8	
■ Future Medicare Part A benefits	2.7	12.3	
■ Future Medicare Part B benefits	6.5	13.4	
■ Future Medicare Part D benefits	--	8.4	
Total	**$20.4**	**$52.7**	**158**

Source: GAO analysis of 2000 and 2007 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. 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.

How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

|	
Total –major fiscal exposures	**$52.7 trillion**
Total household net worth[1]	**$58.6 trillion**
Burden/Net worth ratio	**90 percent**
Burden[2]	
Per person	**$175,000**
Per full-time worker	**$410,000**
Per household	**$455,000**
Income	
Median household income[3]	**$48,201**
Disposable personal income per capita[4]	**$33,253**

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2007:Q3 (December 6, 2007); (2) Burdens are calculated using estimated total U.S. population as of 10/1/2007, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 1, 2007); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2006 (Aug. 2007); and (4) Bureau of Economic Analysis, Personal Income and Outlays, table 2, (Nov. 29, 2007).

Potential Fiscal Outcomes
Under Baseline Extended (January 2001)
Revenues and Composition of Spending as a Share of GDP
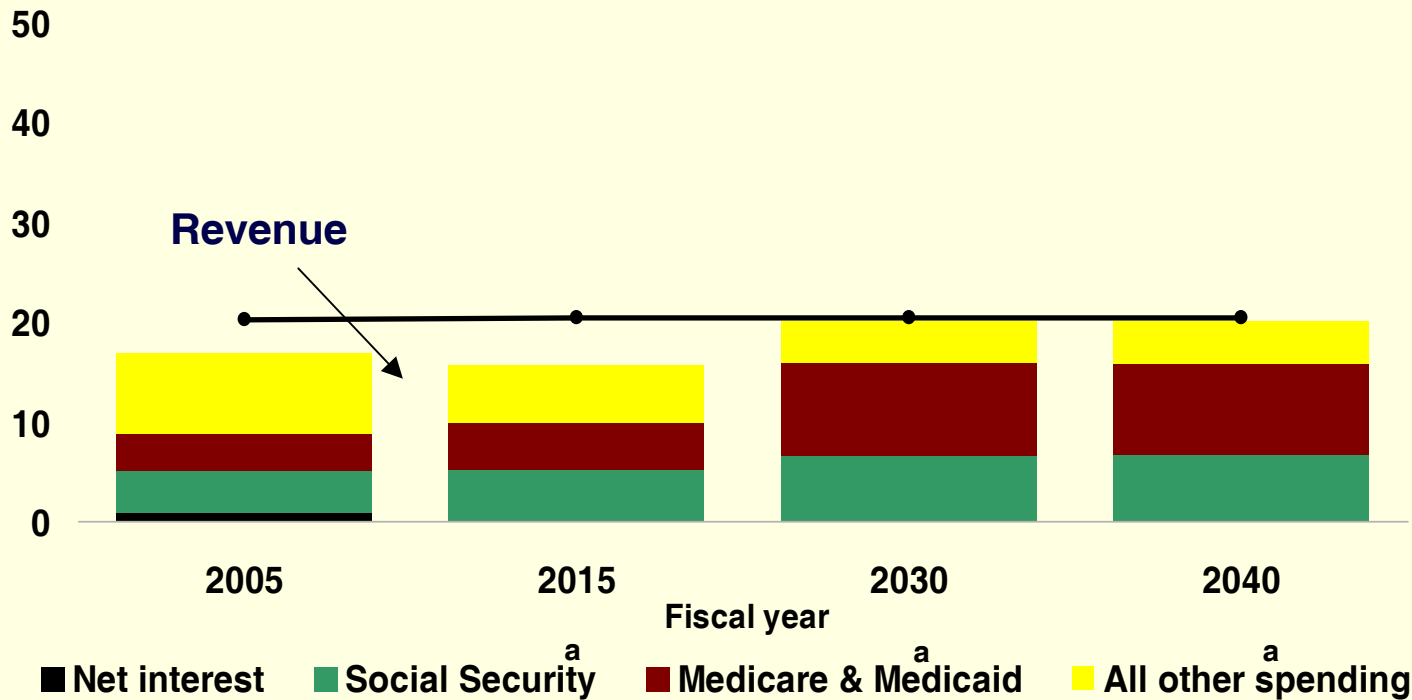
Percent of GDP

Source: GAO's January 2001 analysis.

[a]All other spending is net of offsetting interest receipts.

Potential Fiscal Outcomes
Under Alternative Simulation (August 2007)
Revenues and Composition of Spending as a Share of GDP

Percent of GDP

Revenue

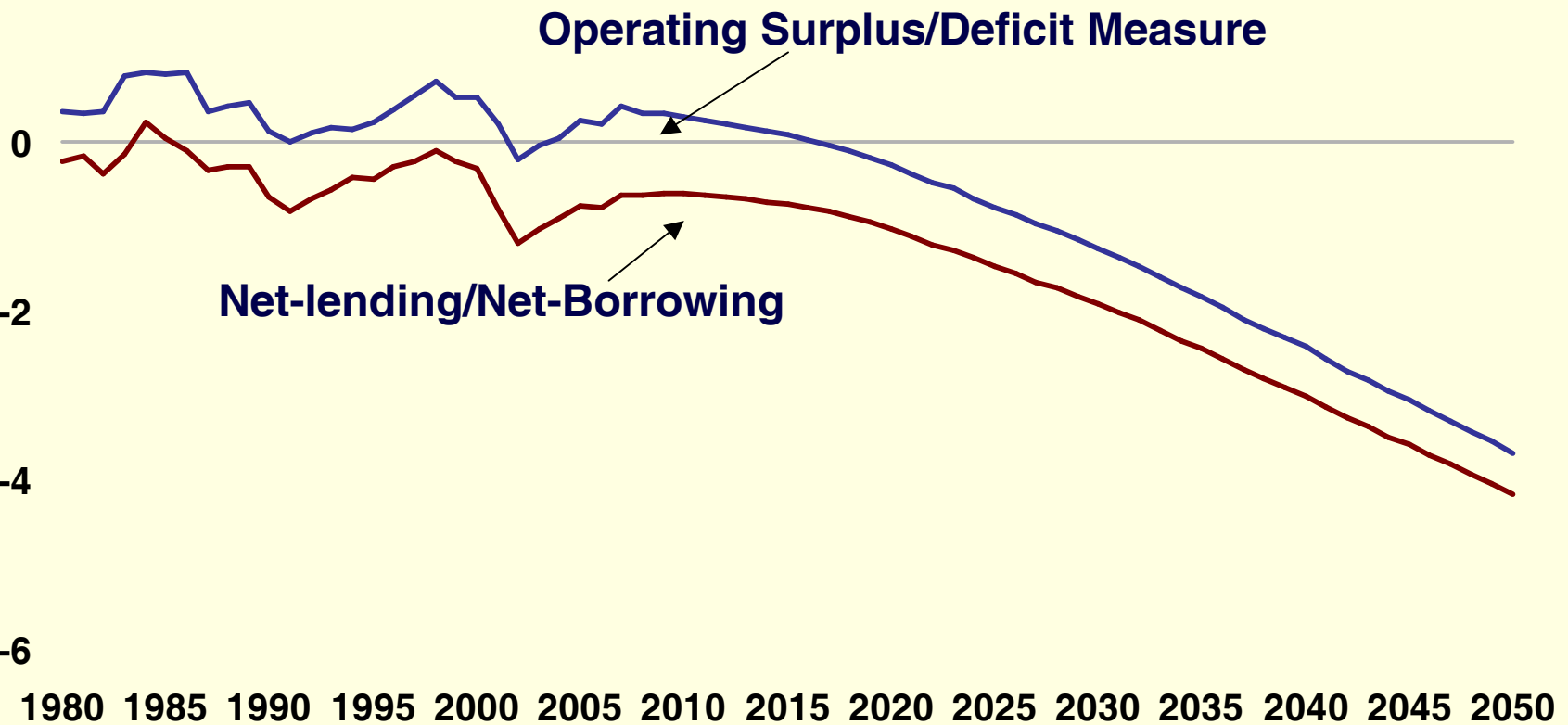|	Net interest	Social Security	Medicare & Medicaid	All other spending

Fiscal year

Source: GAO's August 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 returns to its historical level of 18.3 percent of GDP plus expected revenues from deferred taxes, i.e. taxes on withdrawals from retirement accounts. Medicare spending is based on the Trustees April 2007 projections adjusted for the Centers for Medicare and Medicaid Services alternative assumption that physician payments are not reduced as specified under current law.

State and Local Governments Face Increasing Fiscal Challenges

Percent of GDP

Operating Surplus/Deficit Measure

Net-lending/Net-Borrowing

2

0

-2

-4

-6

1980 1985 1990 1995 2000 2005 2010 2015 2020 2025 2030 2035 2040 2045 2050

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. **Fundamentally Reexamine & Transform 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: GAO's analysis of 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—
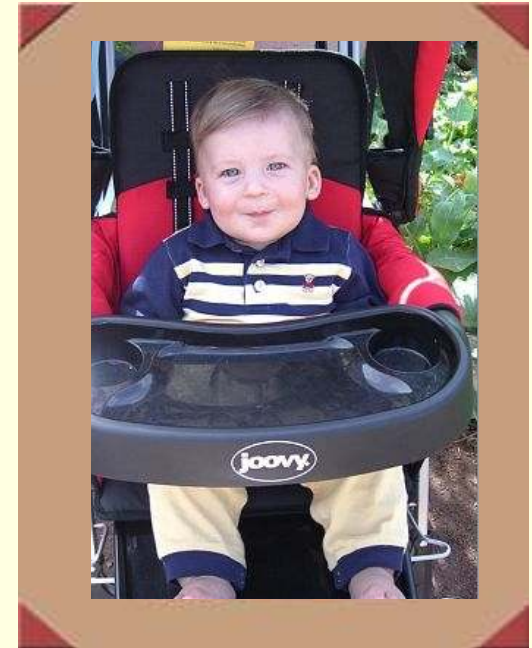# It's About

VALUES & PEOPLE

Why this Matters to Me:
The Walker Grandchildren

Christi

Grace

Daniel