

United States Government Accountability Office

Saving  
Our Future  
requires  
Tough Choices Today

**Fiscal Wake-up Tour  
University of Texas  
Austin, TX  
September 28, 2006**

**The Hon. David M. Walker  
Comptroller General  
of the United States**

# Fiscal Year 2004 and 2005 Deficits and Net Operating Costs

	<b>Fiscal Year 2004</b>	<b>Fiscal Year 2005</b>
	<b>(\$ Billion)</b>	
On-Budget Deficit	(568)	(494)
Off-Budget Surplus*	155	175
Unified Deficit	(413)	(318)
Net Operating Cost	(616)	(760)

\*Includes \$151 billion in fiscal year 2004 and \$173 billion in fiscal year 2005 in Social Security surpluses and \$4 billion in fiscal year 2004 and \$2 billion in fiscal year 2005 in Postal Service surpluses.

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

# Estimated Fiscal Exposures

(\$ trillions)

	2000	2005
<ul style="list-style-type: none"> <li>• <b>Explicit liabilities</b> <ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul> </li> </ul>	\$6.9	\$9.9
<ul style="list-style-type: none"> <li>• <b>Commitments &amp; contingencies</b> <ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul> </li> </ul>	0.5	0.9
<ul style="list-style-type: none"> <li>• <b>Implicit exposures</b> <ul style="list-style-type: none"> <li>• Future Social Security benefits</li> <li>• Future Medicare Part A benefits</li> <li>• Future Medicare Part B benefits</li> <li>• Future Medicare Part D benefits</li> </ul> </li> </ul>	13.0	35.6
<b>Total</b>	<b>\$20.4</b>	<b>\$46.4</b>

Source: U.S. government's consolidated financial statements (CFS).

Note: Estimates for Social Security and Medicare are at present value as of January 1 of each year as reported in the CFS and all other data are as of September 30.

# How Big is Our Growing Fiscal Burden?

**Our total fiscal burden can be translated and compared as follows:**

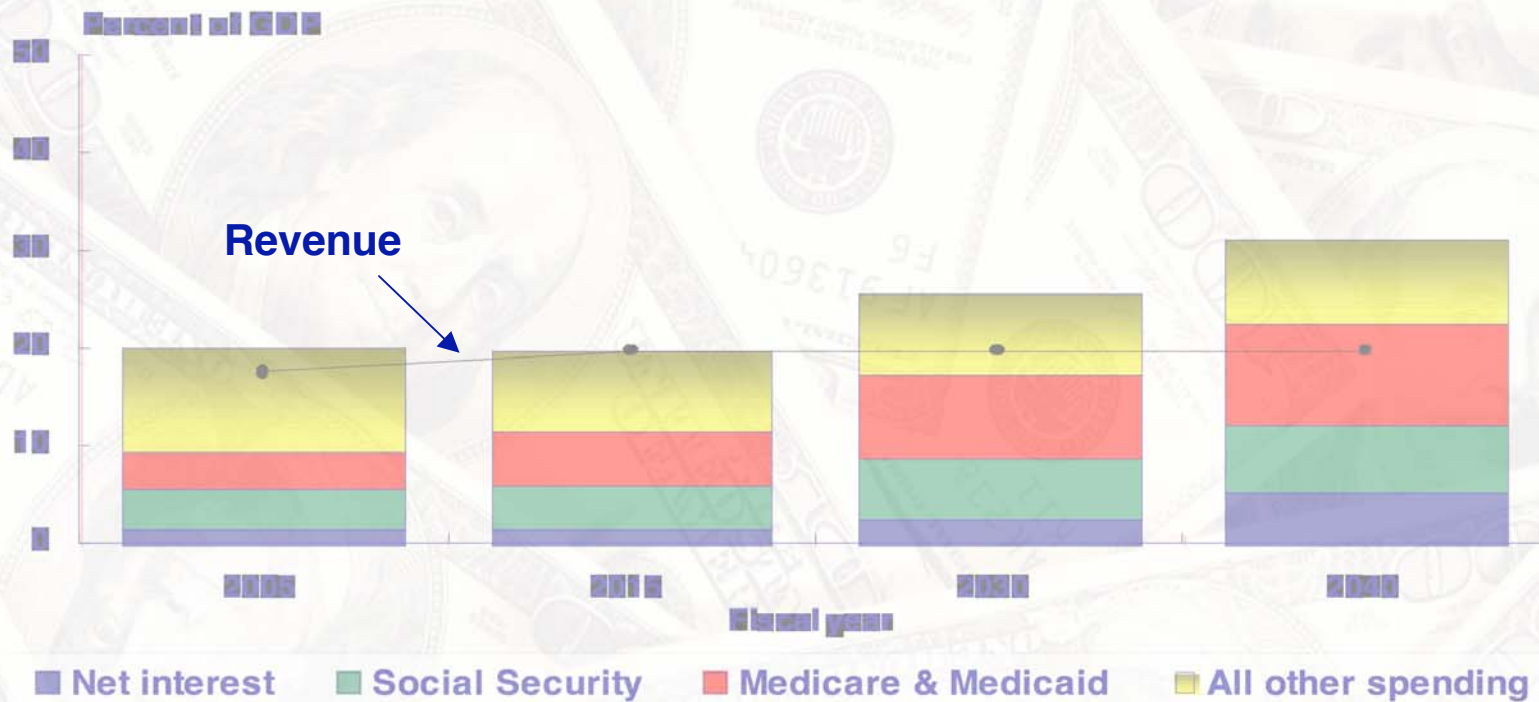
<b>Total fiscal exposures</b>	<b>\$46.4 trillion</b>
<b>Total household net worth<sup>1</sup></b>	<b>\$51.1 trillion</b>
<b>Burden/Net worth ratio</b>	<b>91 percent</b>
<b>Burden<sup>2</sup></b>	
<b>Per person</b>	<b>\$156,000</b>
<b>Per full-time worker</b>	<b>\$375,000</b>
<b>Per household</b>	<b>\$411,000</b>
<b>Income</b>	
<b>Median household income<sup>3</sup></b>	<b>\$44,389</b>
<b>Disposable personal income per capita<sup>4</sup></b>	<b>\$30,431</b>

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2005:Q3 (Dec. 8, 2005); (2) Burdens are calculated using total U.S. population as of 9/30/05, from the *U.S. Census Bureau*, full-time workers for 2004, reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 4, 2005); and households for 2004, reported by the U.S. Census Bureau, in *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); (3) U.S. Census Bureau, *Income Poverty & Health Insurance Coverage in the US: 2004* (Aug. 2005); and (4) Bureau of Economic Analysis, *Personal Income and Outlays: October 2005*, table 2, 2005:Q3, (Dec.1, 2005).

Sources: GAO analysis.

# Composition of Spending as a Share of GDP

## Under Baseline Extended

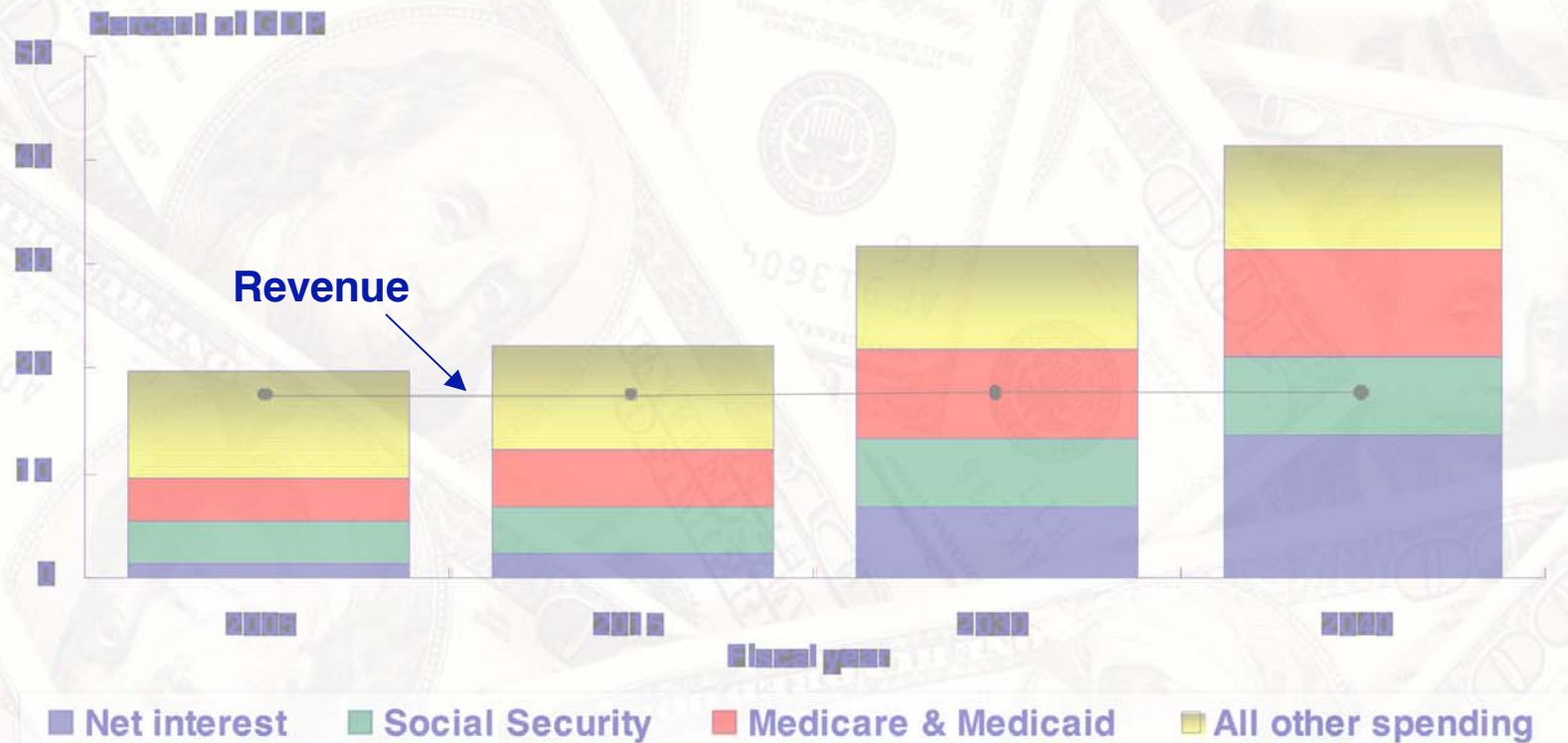


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2016 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2016, revenue as a share of GDP is held constant.

Source: GAO's August 2006 analysis.

# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2006  
and All Expiring Tax Provisions are Extended



Source: GAO's August 2006 analysis.

# 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. Strengthen Budget and Legislative Processes and Controls
2. Improve Financial Reporting and Performance Metrics
3. Fundamental Reexamination & Transformation for the 21<sup>st</sup> Century

*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

# 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 21<sup>st</sup> 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**



# The Walker Grandchildren



Christi (4)



Grace (3)



Daniel Patrick  
(born 3/17/06)

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## **On the Web**

Web site: [www.gao.gov/cghome.htm](http://www.gao.gov/cghome.htm)

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