The Nation’s Fiscal Health

Action is Needed to Address the Federal Government’s Fiscal Future

In addition to near term financing decisions, a broader plan is needed to put the government on a more sustainable long-term path. This report illuminates this need by outlining the fiscal condition of the U.S. government and its future path based on current fiscal policies. It draws on the recently issued Fiscal Year 2016 Financial Report of the United States Government (2016 Financial Report) and GAO’s audit of the government’s consolidated financial statements.

According to the 2016 Financial Report, the federal deficit in fiscal year 2016 increased to $587 billion—up from $439 billion in fiscal year 2015. Federal receipts grew a modest $18.0 billion due primarily to extensions of tax preferences, but that was outweighed by a $166.5 billion increase in spending, driven by Social Security, Medicare, and Medicaid, and interest on debt held by the public (net interest). Debt held by the public rose as a share of gross domestic product (GDP), from 74 percent at the end of fiscal year 2015 to 77 percent at the end of fiscal year 2016. This compares to an average of 44 percent of GDP since 1946.

The 2016 Financial Report, the Congressional Budget Office (CBO), and GAO projections all show that, absent policy changes, the federal government’s fiscal path is unsustainable and that the debt-to-GDP ratio would surpass its historical high of 106 percent within 15 to 25 years (see figure below).

Debt Held by the Public Under Projections from the 2016 Financial Report, the Congressional Budget Office, and GAO

Percentage of gross domestic product

Sources: GAO, Congressional Budget Office, and 2016 Financial Report. | GAO-17-237SP

View GAO-17-237SP. For more information, contact Robert F. Dacey at (202) 512-3406 or daceyr@gao.gov, Gary T. Engel, (202) 512-3406 or engelg@gao.gov, or Susan J. Irving, (202) 512-6806, irvings@gao.gov.
Importance of Early Action: The 2016 Financial Report, CBO, and GAO all make the point that the longer action is delayed, the greater and more drastic the changes will have to be. As shown in the timeline below, Medicare's Hospital Insurance trust fund, and Social Security’s Disability Insurance trust fund and Old-Age and Survivors Insurance trust fund face financial challenges that add to the importance of beginning action. It is important to develop and begin to implement a long-term fiscal plan for returning to a sustainable path.

Alternative Approach to Managing Debt Is Needed: The current debt limit is not a control on debt, but rather an after-the-fact measure that restricts the Department of the Treasury’s authority to borrow to finance the decisions already enacted by Congress and the President. GAO has suggested Congress consider alternative approaches that would better link decisions about borrowing to finance the debt with decisions about spending and revenue at the time those decisions are made.

Of further concern is the fact that none of the long-term projections include certain other fiscal risks that could affect the federal government’s financial condition in the future. These include risks stemming from crises to which the public expects a federal fiscal response, such as wars, economic, financial or weather-related crises. A more complete understanding of fiscal risks can help policymakers anticipate changes in future spending and can enhance oversight of federal resources.

Fiscal Risks Place Additional Pressure on the Federal Budget
Fiscal risks are responsibilities, programs, and activities that may legally commit or create expectations for future spending based on current policy, past practices, or other factors.

Executive Agencies Have Opportunities to Contribute Toward Fiscal Sustainability
Executive actions alone cannot put the U.S. government on a sustainable fiscal path, but it is important for agencies to act as stewards of federal resources. In prior work, GAO has identified numerous actions for executive agencies to contribute toward a more sustainable fiscal future.

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<tr>
<th>Year</th>
<th>Social Security Disability Insurance (DI) trust fund depleted: Sufficient to pay 89 percent of benefits</th>
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<td>2023</td>
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<tr>
<th>Year</th>
<th>Medicare Hospital Insurance (HI) trust fund depleted: Sufficient to pay 87 percent of hospital-related Medicare spending</th>
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<tr>
<th>Year</th>
<th>Social Security Old-Age and Survivors Insurance (OASI) trust fund depleted: Sufficient to pay 77 percent of benefits</th>
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<td>2035</td>
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<th>Year</th>
<th>Debt held by the public surpasses historical high of 106 percent under GAO alternative simulation</th>
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<th>Year</th>
<th>Debt held by the public surpasses historical high of 106 percent under CBO extended baseline projection</th>
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<th>Year</th>
<th>Debt held by the public surpasses historical high of 106 percent under 2016 Financial Report projections</th>
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Sources: Trustees for Social Security and Medicare, Congressional Budget Office, GAO, and 2016 Financial Report. | GAO-17-237SP