

## **The Debt No One Wants to Talk About**

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(Washington) “We might hope to see the finances of the Union as clear and intelligible as a merchant’s books,” President Thomas Jefferson wrote to his secretary of the Treasury in 1802, “so that every member of Congress, and every man of any mind in the Union, should be able to comprehend them, to investigate abuses, and consequently to control them.” Unfortunately, straightforward government financial information seems as elusive in 2004 as it did in Jefferson’s day.

The truth is that the United States faces a long-term deficit that will only increase as the baby boomers retire. The resulting fiscal imbalance will test the nation’s spending and tax policies. Washington’s recent difficulty in maintaining fiscal restraint has not helped matters.

The fiscal 2005 budget President Bush released on Monday includes a deficit of \$364 billion. Although the administration and the Congressional Budget Office show declining deficits in the years ahead, and an improving economy will reduce deficits further, the long-term projected gap is now so large that we will not be able simply to grow our way out of the problem. Difficult choices are inevitable.

But the current system of federal financial reporting provides an unrealistic and even misleading picture of the government’s overall performance and financial condition. Few agencies adequately show the results they are getting with the taxpayer dollars they spend, and too many significant government commitments and obligations are not fully disclosed.

Particularly troubling are the many big-ticket items that taxpayers will eventually have to reckon with, including Social Security, Medicare, civilian and military retirement and health care benefits, and veterans’ medical care. Despite their serious implications for future budgets, tax burdens and spending flexibility, these future obligations get short shrift in the government’s financial statements and in budgetary deliberations.

The federal government’s gross debt was about \$7 trillion last September, which works out to about \$24,000 for every man, woman, and child in this country. But that number excludes items like the gap between the government’s Social Security and Medicare commitments and the money put aside to pay for them. If these items are factored in, the burden for every American rises to well over \$100,000.

The new Medicare prescription drug benefit will add thousands more to that tab. This benefit is unquestionably popular and will make it easier for some older Americans to afford expensive prescription drugs. But it also comes with a steep price tag that few want to talk about. The truth is that the drug benefit as signed into law is one of the largest commitments ever undertaken by the federal government. Preliminary estimates of its long-term cost in current dollars range up to \$8 trillion.

To put that number into perspective: it is about four times the entire federal budget. Long-term simulations from the legislative agency I head, the General Accounting Office, paint a chilling picture. Even before the new drug benefit was enacted, these simulations showed that by 2040 current policy could require a 50 percent reduction in federal spending or a doubling of taxes to balance the budget.

Either would be devastating. And keep in mind, it is likely that efforts will be made to expand the drug benefit in the future.

A key lesson from Enron, Worldcom and other business failures is that our free-market system depends on public confidence in the accuracy of corporate financial information. Recent GAO reports have highlighted the increasing frequency of corporate earnings restatements. Who would knowingly buy stock in, lend to, or do business with a company that conceals its true financial condition?

As Jefferson pointed out, truth and transparency are even more essential in the public sector. Government services—mail delivery, food inspection, Social Security, and defense, to name a few—directly affect the well-being of every American. But sound decisions on federal programs and policies are nearly impossible without timely, accurate and useful information.

Fortunately, we are starting to see efforts to address the shortcomings in federal financial reporting. The latest annual report of the federal government focuses more on the nation's long-range fiscal imbalance. The president's Management Agenda, which closely reflects GAO's list of high-risk government programs, is bringing additional attention to troubled areas and is trying to better assess the results that programs are getting with the resources they are given. The Federal Accounting Standards Advisory Board is also making progress.

The General Accounting Office and other budget experts continue to encourage reforms in the federal budget process to better reflect the government's commitments and to signal emerging problems. Among other things, the GAO has recommended the government issue an annual report on major fiscal exposures—explicit and implicit promises for future government spending.

Much more must be done, however. A top-to-bottom review of government activities to ensure their relevance for the 21<sup>st</sup> century is long overdue.

From a practical standpoint, our elected representatives are not likely to get too far out in front of the American people when addressing complex and controversial issues. These fiscal risks, however, are a long-term problem whose impact will not be felt for some time. The understanding and support of the American people will be critical in providing a foundation for action.

A national education campaign to help the public understand the nature and magnitude of the long-term financial challenge facing this nation is essential. After all, an informed

electorate is indispensable for a sound democracy. Young Americans especially need to become active in this discussion—because they and their children will bear the heaviest burden if today’s leaders fail to act.

Public officials will have more incentive to make difficult but necessary choices if the public has the facts and comes to support serious and sustained action to address our fiscal challenges. Without meaningful public debate, however, real and lasting change is unlikely. The sooner we act, the easier it will be to turn things around.

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