Saving Our Future requires Tough Choices Today

The Woodrow Wilson School of Public and International Affairs
Princeton University
Princeton, NJ
February 6, 2008

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

1966
- Defense: 34%
- Social Security: 43%
- Net interest: 7%
- All other spending: 15%
- Medicare & Medicaid: 1%

1986
- Defense: 29%
- Social Security: 28%
- Net interest: 14%
- All other spending: 10%
- Medicare & Medicaid: 20%

2006
- Defense: 32%
- Social Security: 20%
- Net interest: 9%
- All other spending: 19%
- Medicare & Medicaid: 21%

Sources: Office of Management and Budget and the Department of the Treasury.
Note: Numbers may not add to 100 percent due to rounding.
Federal Spending for Mandatory and Discretionary Programs

1966
- Net Interest: 7%
- Discretionary: 67%
- Mandatory: 26%

1986
- Net Interest: 14%
- Discretionary: 42%
- Mandatory: 44%

2006
- Net Interest: 9%
- Discretionary: 38%
- Mandatory: 53%

Source: Office of Management and Budget.
### Fiscal Year 2006 and 2007 Deficits and Net Operating Costs

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2006 ($ Billion)</th>
<th>Fiscal Year 2007 ($ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Budget Deficit</td>
<td>(434)</td>
<td>(344)</td>
</tr>
<tr>
<td>Unified Deficit&lt;sup&gt;a&lt;/sup&gt;</td>
<td>(248)</td>
<td>(163)</td>
</tr>
<tr>
<td>Net Operating Cost</td>
<td>(450)</td>
<td>(276)</td>
</tr>
</tbody>
</table>

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

<sup>a</sup>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

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

Fiscal exposures (trillions)

0 100 200 300 400 500 600 700 800 900 1000

2004 2005 2006 2007

Long-term Fiscal Exposures

Net Operating Cost

Operating Deficit

Unified Deficit

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.
Surplus or Deficit as a Share of GDP (1797-2007)

Source: Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.
Debt Held by the Public as a Share of GDP (1797-2007)

Source: GAO analysis of data from the Department of Commerce, Office of Management and Budget, and Congressional Budget Office.

Note: Data until 1929 are shown as a percent of gross national product (GNP); data from 1930 to present are shown as a percent of GDP.
Foreign Investors Now Own More of America’s Publicly Held Debt

1996
Total Debt Held by the Public: $3.73 trillion

- Foreign and international investors: 62%
- Federal Reserve: 28%
- Domestic investors and state and local governments: 10%

2006
Total Debt Held by the Public: $4.87 trillion

- Foreign and international investors: 44%
- Federal Reserve: 16%
- Domestic investors and state and local governments: 40%

Source: Department of the Treasury.
## Major Fiscal Exposures

($ trillions)

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


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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total –major fiscal exposures</td>
<td>$52.7 trillion</td>
</tr>
<tr>
<td>Total household net worth(^1)</td>
<td>$58.6 trillion</td>
</tr>
<tr>
<td>Burden/Net worth ratio</td>
<td>90 percent</td>
</tr>
<tr>
<td>Burden(^2)</td>
<td></td>
</tr>
<tr>
<td>Per person</td>
<td>$175,000</td>
</tr>
<tr>
<td>Per full-time worker</td>
<td>$410,000</td>
</tr>
<tr>
<td>Per household</td>
<td>$455,000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Median household income(^3)</td>
<td>$48,201</td>
</tr>
<tr>
<td>Disposable personal income per capita(^4)</td>
<td>$33,253</td>
</tr>
</tbody>
</table>

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

Revenue

Net interest  Social Security  Medicare & Medicaid  All other spending

Source: GAO’s January 2001 analysis.

*All other spending is net of offsetting interest receipts.

Fiscal year

2005  2015a  2030a  2040a
Potential Fiscal Outcomes
Under Alternative Simulation
Revenues and Composition of Spending as a Share of GDP

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.
Debt Held by the Public Under GAO’s Alternative Simulation

Source: GAO’s August 2007 analysis.
Growth in Spending for Social Security, Medicare, and Medicaid Expected to Outpace Economic Growth

Growth in constant dollars 2007-2032

- GDP: 71%
- Social Security Spending: 127%
- Medicaid Spending: 224%
- Medicare Spending: 235%

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration; Office of the Actuary, Centers for Medicare and Medicaid Services; and the Congressional Budget Office.

Social Security, Medicare, and Medicaid Spending as a Percent of GDP

Source: GAO analysis based on data from the Office of the Chief Actuary, Social Security Administration, Office of the Actuary, Centers for Medicare and Medicaid Services, and the Congressional Budget Office.

State and Local Governments Face Increasing Fiscal Challenges

Percent of GDP

Operating Surplus/Deficit Measure

Net-lending/Net-Borrowing

State and Local Fiscal Challenges Add to the Federal Government’s Fiscal Challenge

### Federal Surplus/Deficit

#### Percent of GDP

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</thead>
<tbody>
<tr>
<td></td>
<td>5</td>
<td>0</td>
<td>-5</td>
<td>-10</td>
<td>-15</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
<td>-20</td>
</tr>
</tbody>
</table>

Source: Historical data from National Income and Product Accounts, GAO Analysis.

Note: Historical data from 2000 – 2006, projections from 2007 – 2050; state and local balance measure is similar to the federal unified budget measure. Federal Simulation Assumptions: Discretionary spending grows with GDP after 2007. 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.
Social Security and Medicare’s Hospital Insurance Trust Funds Face Cash Deficits


Note: Projections based on the intermediate assumptions of the 2007 Trustees’ Reports. The CPI is used to adjust from current to constant dollars.
Growth in Health Care Spending: 
*Health Care Spending as a Percentage of GDP*

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>8.1</td>
</tr>
<tr>
<td>1985</td>
<td>10.4</td>
</tr>
<tr>
<td>1995</td>
<td>13.7</td>
</tr>
<tr>
<td>2005</td>
<td>16.0</td>
</tr>
<tr>
<td>2015</td>
<td>19.2</td>
</tr>
</tbody>
</table>

Source: The Centers for Medicare & Medicaid Services, Office of the Actuary.

Note: The figure for 2015 is projected.
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The Honorable David M. Walker
Comptroller General of the United States
On the Web
Web site: www.gao.gov/cghome.htm

Contact
Chuck Young, Managing Director, Public Affairs
YoungC1@gao.gov (202) 512-4800
U.S. Government Accountability Office
441 G Street NW, Room 7149
Washington, D.C. 20548

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