

Long-Term Fiscal Challenge: Context for Budget/Funding Debates

**Susan J Irving
Transportation Research Board
of the National Academies
Executive Committee Policy Session
June 10, 2011**



Overview

- Near-term economy and deficit
- Longer-term challenge
- “Creative” approaches to financing: things to beware of

Today

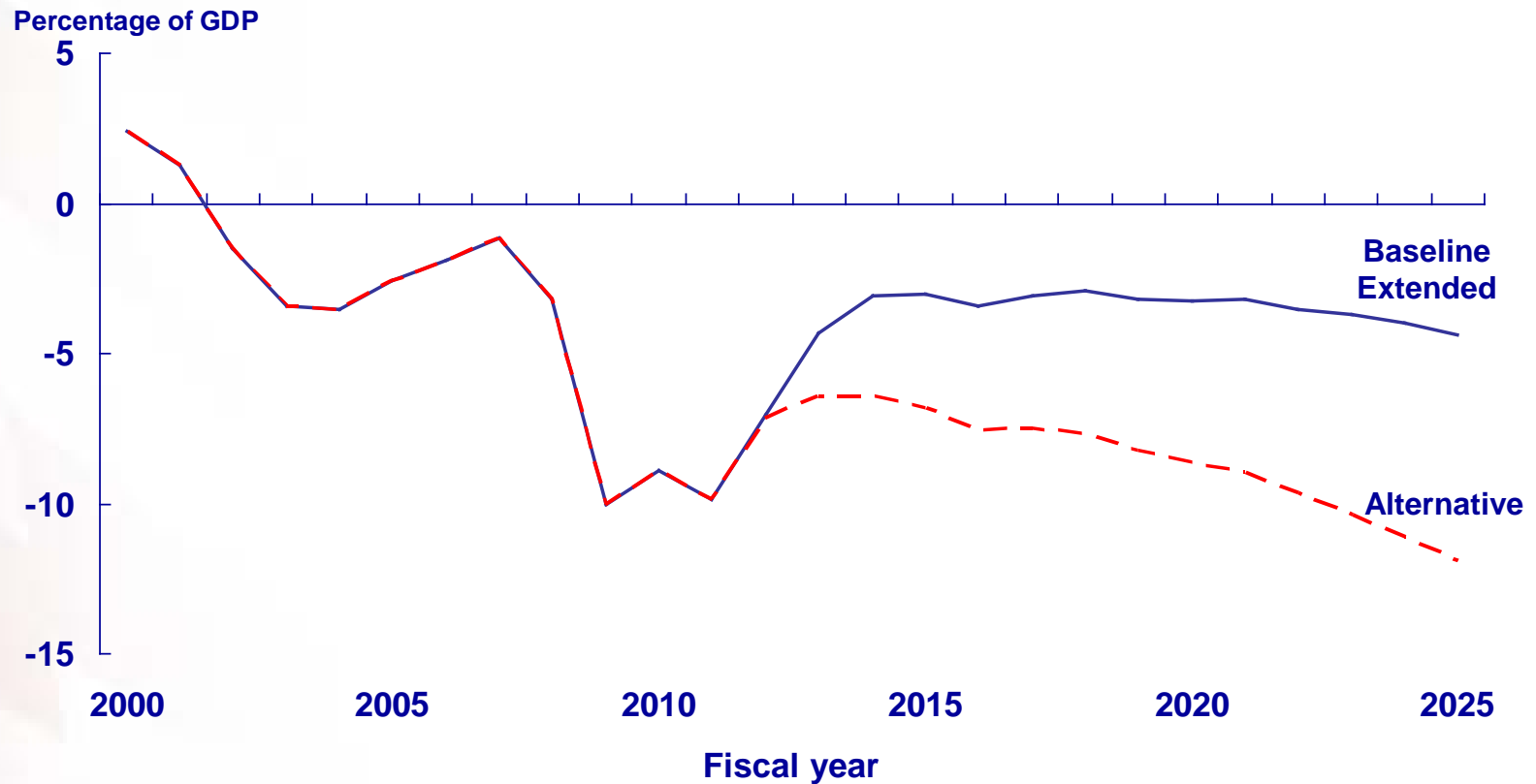
- Deficits

- FY 2009 \$1.41 trillion 10.0% GDP
- FY 2010 \$1.29 trillion 8.9% GDP
- FY 2011 (est) \$1.40 trillion 9.3% GDP

Economy is weak

2011-2021

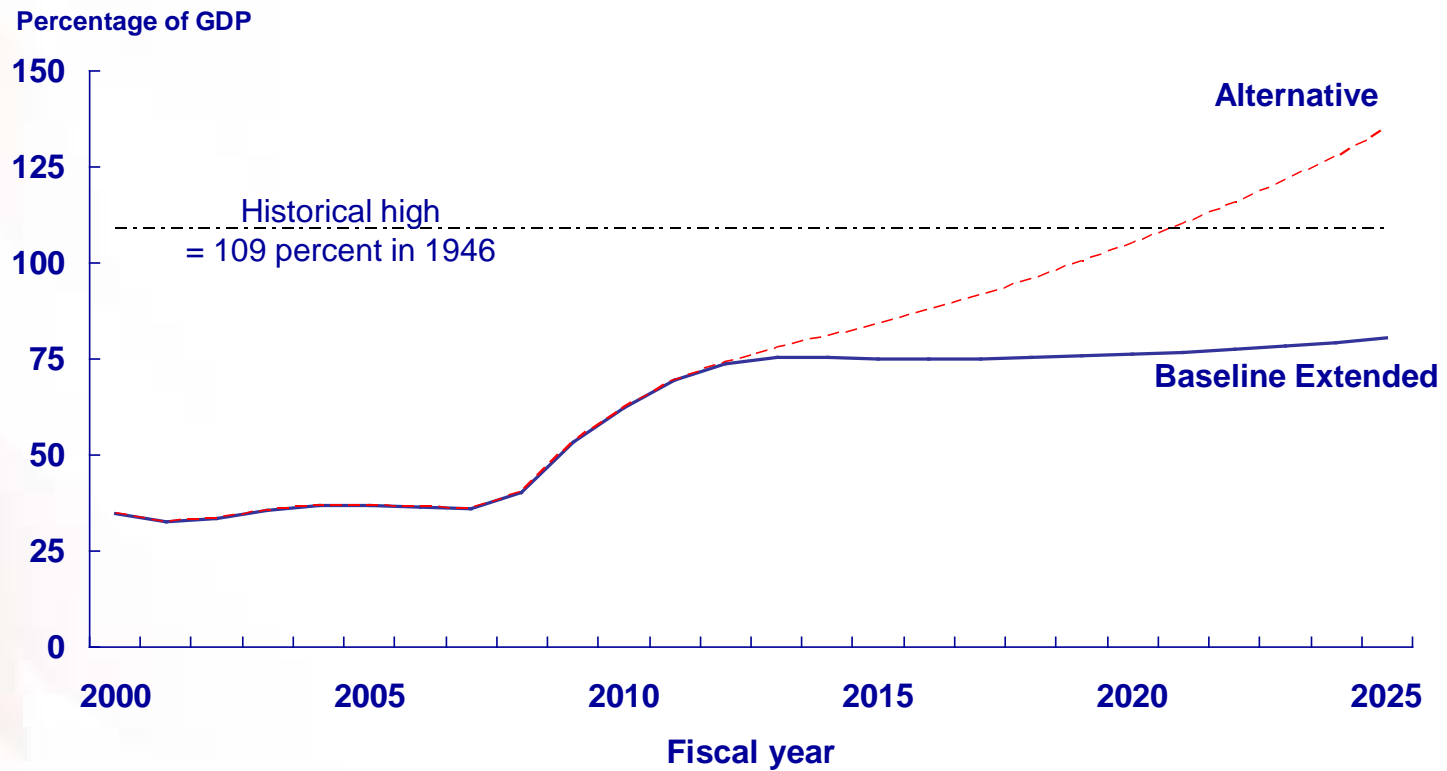
Federal Budget Surpluses and Deficits under Different Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

Debt Held by the Public under Two Fiscal Policy Simulations

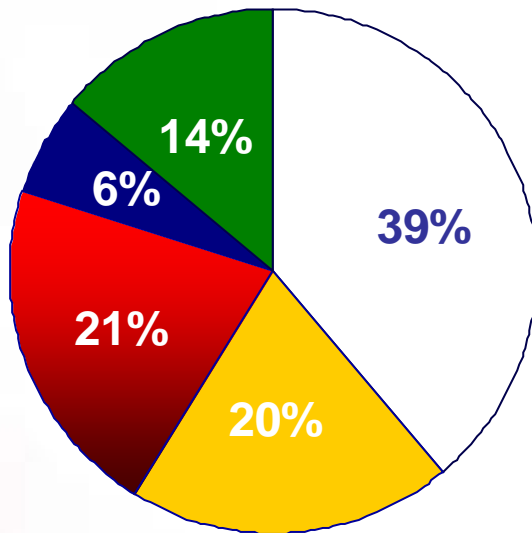


Source: GAO.

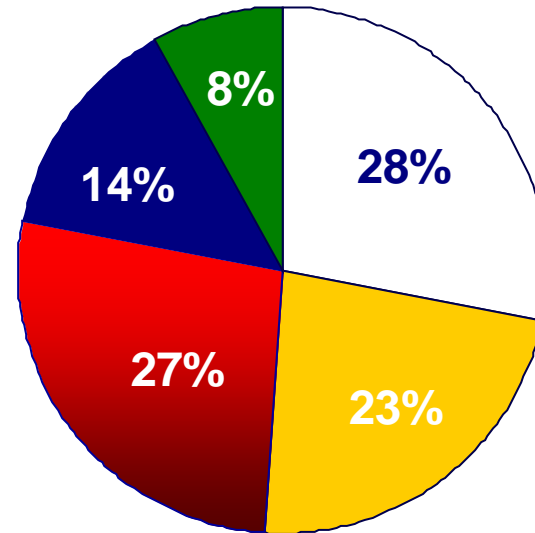
Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's alternative assumptions for Medicare.

Composition of Federal Spending

2010



2021



Discretionary
Net interest

Social Security
Other Mandatory

Health

Source: GAO analysis of Congressional Budget Office data.

The Long Term Isn't So Far Away: Rising Health Care Costs and an Aging Population Have Already Begun to Affect the Federal Budget

2008 Oldest members of the baby boom generation became eligible for early Social Security retirement benefits

2008 Medicare Hospital Insurance outlays exceeded cash income

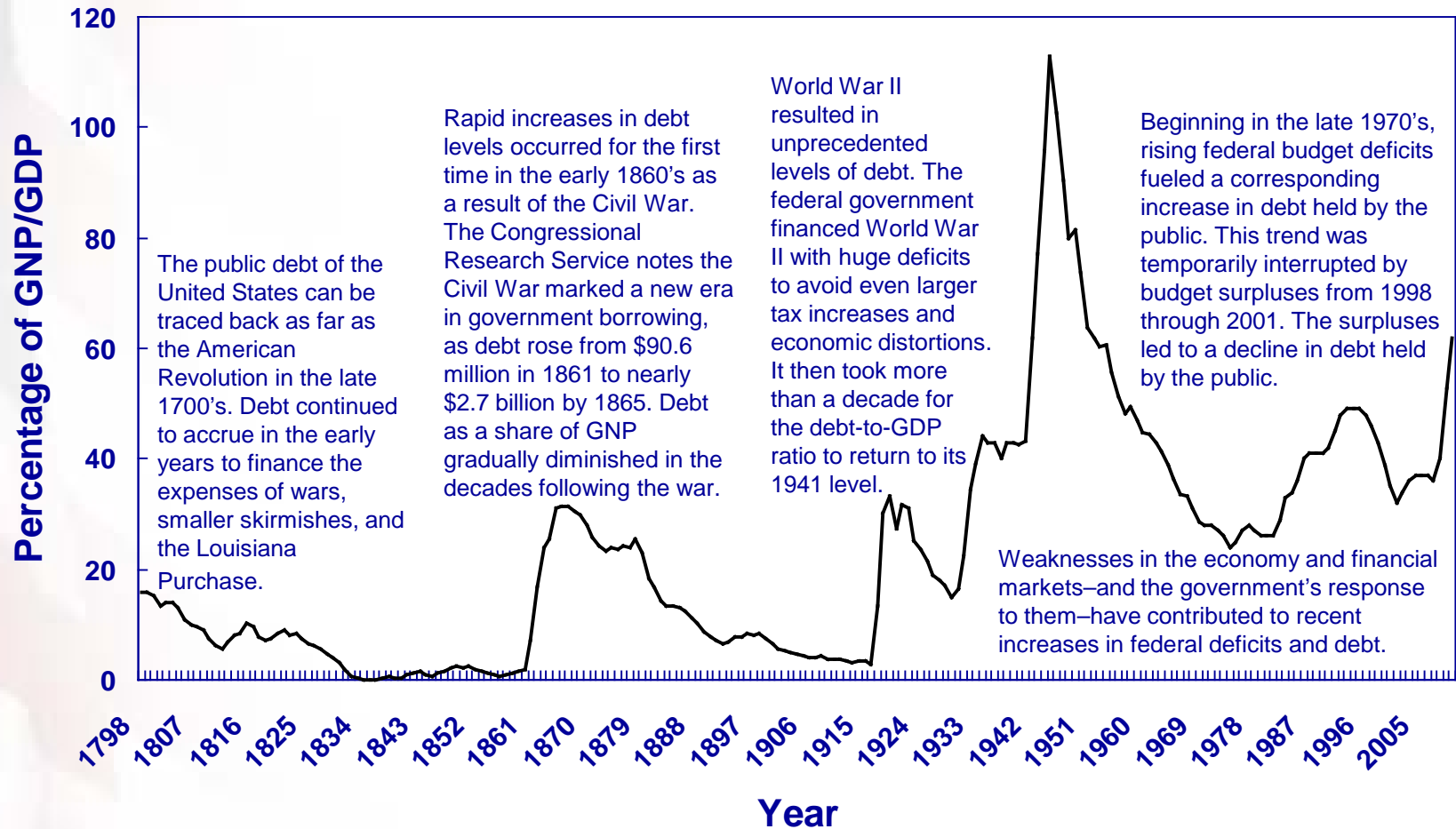
2010 Social Security runs first cash deficit in more than a quarter century

2011 Oldest members of the baby boom generation become eligible for Medicare

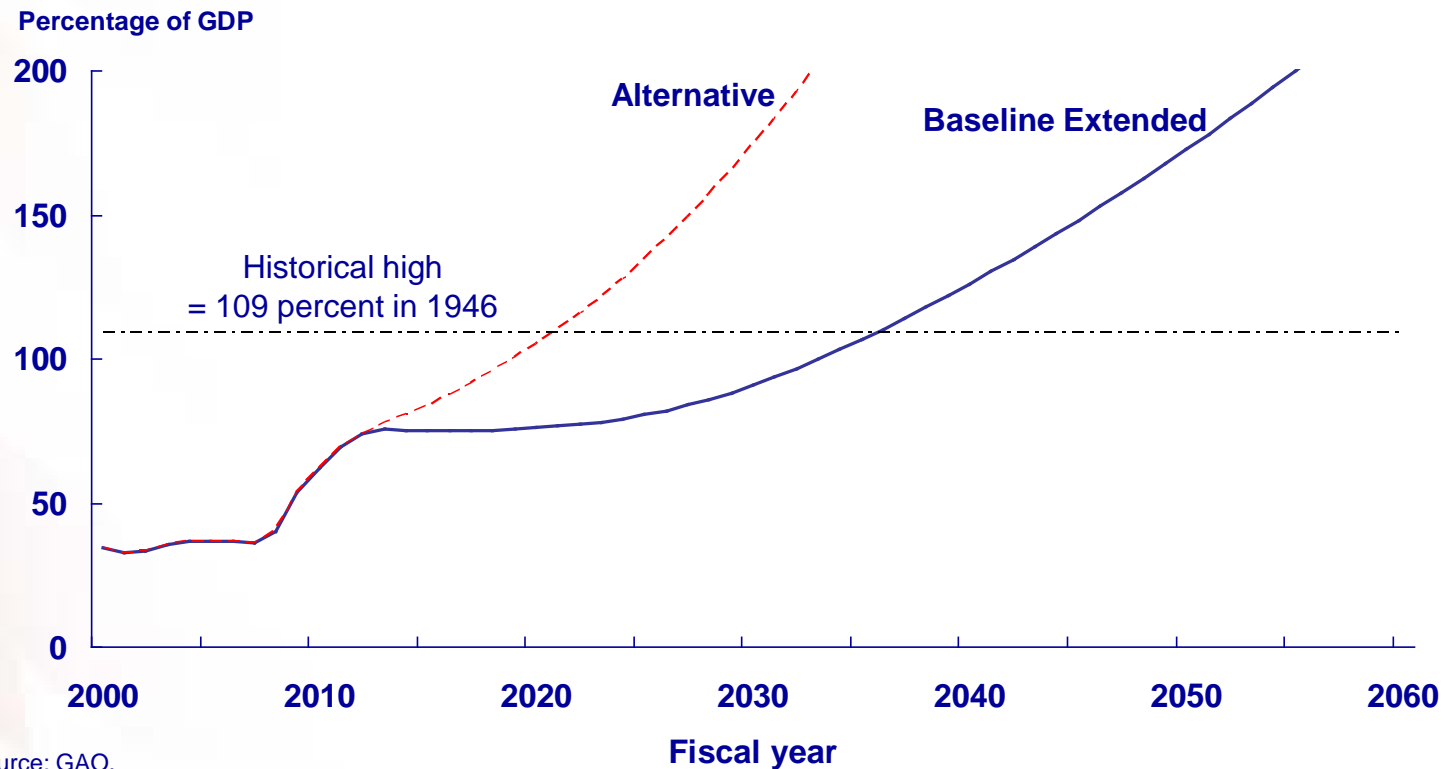
Source: GAO.

2021 Debt held by the public under GAO's Alternative simulation exceeds the historical high reached in the aftermath of World War II

Historic Events Affecting Federal Debt Held by the Public (1797-2010)



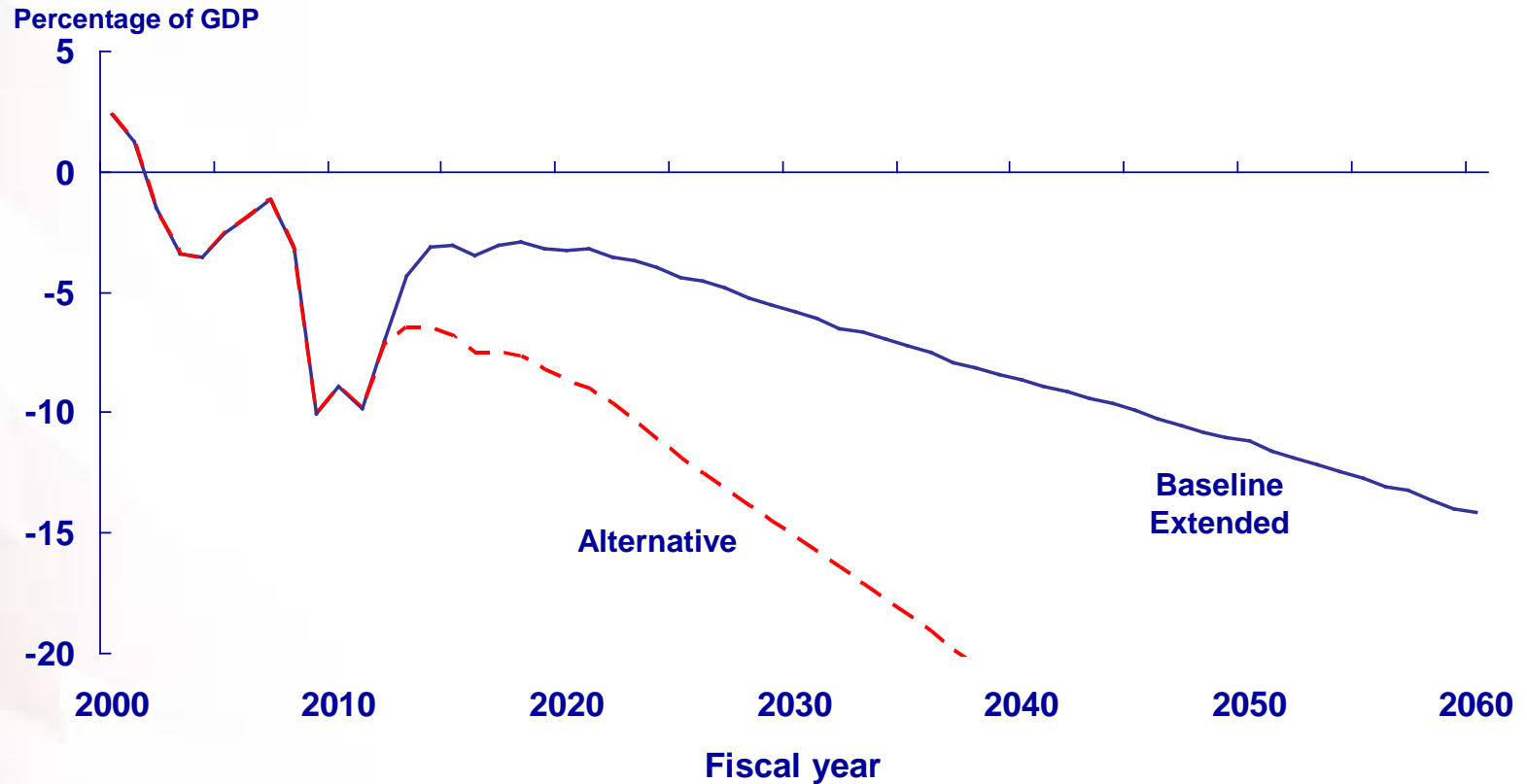
Debt Held by the Public under Two Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's alternative assumptions for Medicare.

Federal Budget Surpluses and Deficits under Different Fiscal Policy Simulations

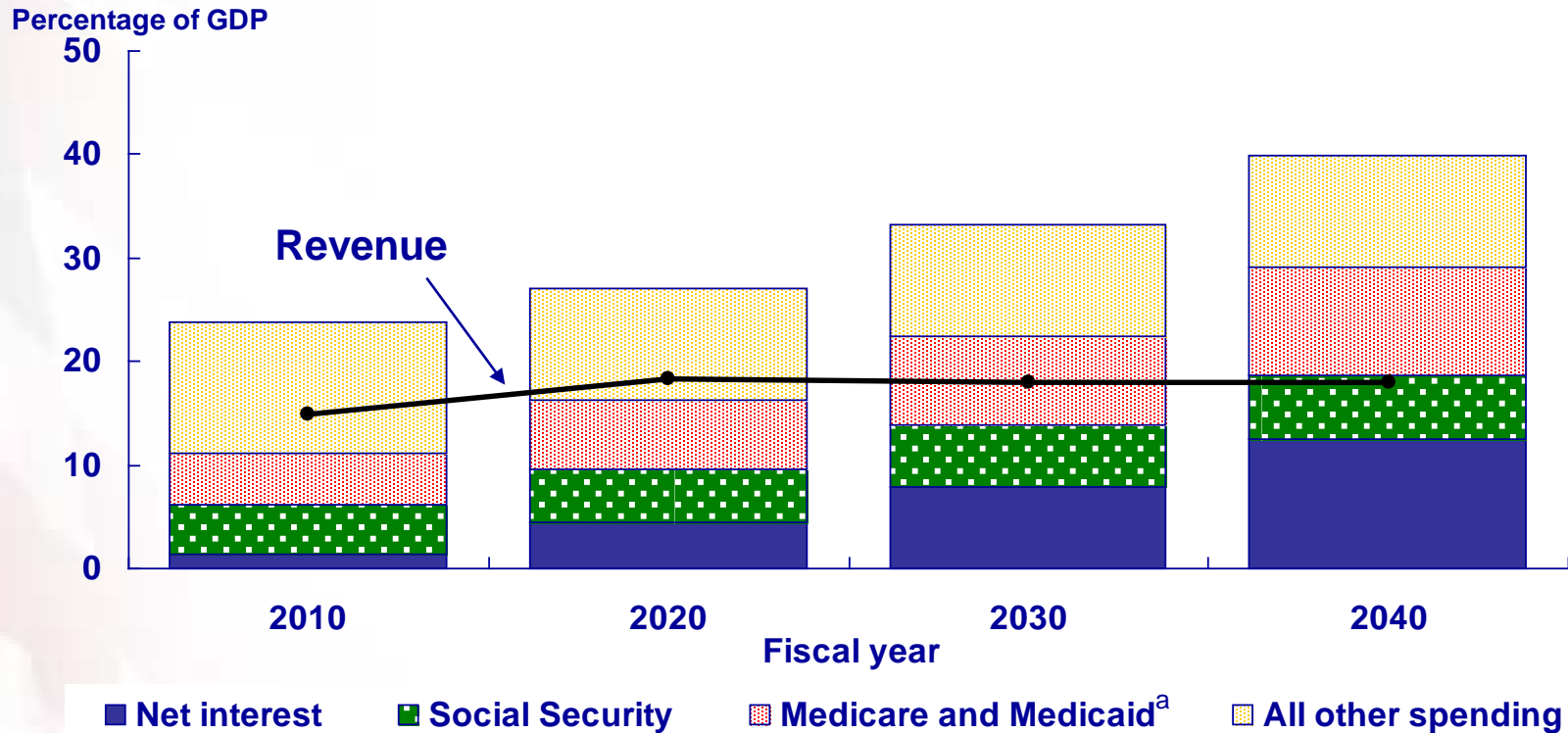


Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare.

Potential Fiscal Outcomes

Revenues and Composition of Spending under Alternative Simulation



Source: GAO.

Note: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and CMS Actuary's alternative assumption for Medicare.

^aThis also includes spending for insurance exchange subsidies and CHIP.

Federal Fiscal Gap (2011-2085)

	Fiscal gap		Average percentage change required to close gap			
			If action is taken today		If action is delayed until 2021	
	Trillions of present value 2011 dollars	Percentage of GDP	Solely through increases in revenue	Solely through decreases in noninterest spending	Solely through increases in revenue	Solely through decreases in noninterest spending
Baseline Extended Alternative	31.9	3.1	14.9	13.1	17.4	15.2
	99.4	9.6	53.5	35.2	62.9	40.2

Source: GAO.

Notes: Data are from GAO's January 2011 simulations based on the Trustees' assumptions for Social Security and the Trustees' and CMS Actuary's assumptions for Medicare. The fiscal gap is the amount of spending reductions or tax increases that would be needed for debt as a share of GDP to equal today's ratio at the end of the 75-year period. Our present value calculations take into the account the time value of money by discounting future revenue and spending to reflect the equivalent amount needed today in current dollars. These calculations are sensitive to changes in interest rates

Total Federal Revenue and Discretionary Spending: Historical Averages and GAO's Simulations after 2021

Percentage of GDP

	20-year historical average	40-year historical average	Baseline Extended	Alternative
Total Revenue	17.9	18.0	20.8	18.0
Discretionary spending	7.5	8.7	6.7	8.6

Sources: CBO and GAO.

Note: Simulation values represent GAO's ultimate assumptions (beyond the 10th year).

Additional Information: Long-Term Fiscal Outlook

- GAO Website on Debt & Long-term Fiscal Outlook is <http://www.gao.gov/special.pubs/longterm/> there are tabs at the top for various sections
- Background & details on the long-term simulations can be found at <http://www.gao.gov/special.pubs/longterm/fed/>
- **The Federal Government's Long-Term Fiscal Outlook: January 2011 Update** ([GAO-11-451SP](#), Mar. 17, 2011)

GAO also does simulations of the state & local government sector. See **State and Local Governments' Fiscal Outlook: April 2011 Update** ([GAO-11-495SP](#), Apr. 6, 2011)

Additional Reports of Interest

- **Budget Issues:** Alternative Approaches to Finance Federal Capital
[GAO-03-1011](#), (Aug 21, 2003)
- **Capital Financing:** Partnerships and Energy Savings Performance Contracts Raise Budgeting and Monitoring Concerns
[GAO-05-55](#), (Dec 16, 2004)
- **Budget Issues:** Agency Data Supporting Capital Project Funding Requests Could Be Improved
GAO-01-770 (June 8, 2001)
- **Executive Guide:** Leading Practices in Capital Decision-Making
AIMD-99-32 (December 01, 1998)
- **Budget Issues:** Budgeting for Capital
(statement before the President's Commission to Study Capital Budgeting)
[T-AIMD-98-99](#), (March 06, 1998)

-
- **Budget Issues:** Budgeting for Federal Insurance Programs, [GAO/T-AIMD-98-147](#) (April 23, 1998).
 - **Budget Issues:** Budgeting for Federal Insurance Programs, [GAO/AIMD-97-16](#) (September 20, 1997).
 - **Federal Trust and Other Earmarked Funds:** Answers to Frequently Asked Questions, [GAO-01-199SP](#) (January 2001).

GAO Transportation Reports of Interest (a selection)

- **Highway Trust Fund:** Improved Solvency Mechanisms and Communication Needed to Help Avoid Shortfalls in the Highway Account
GAO-09-316 (February 2009)
- **Surface Transportation:** Principles Can Guide Efforts to Restructure and Fund Federal Programs GAO-08-744T (July 2008)
- **Highway Public-Private Partnerships:** More Rigorous Up-front Analysis Could Better Secure Potential Benefits and Protect the Public Interest
GAO-08-44 (February 2008)
- **Highway Trust Fund:** Nearly All States Received More Funding Than They Contributed in Highway Taxes Since 2005 GAO 10-780 (June 2010)
- **Transforming Transportation Policy for the 21st Century: Highlights of a Forum** GAO-07-1210SP (September 2007)