



BUDGET PROCESS

Long-term Focus Is Critical

Highlights of [GAO-04-585T](#), a testimony before the Subcommittee on Legislative and Budget Process, Committee on Rules, House of Representatives

Why GAO Did This Study

The structure of the budget process can help ensure that budget decision makers are presented with the information and choices for timely and informed decision-making. GAO's long-term budget simulations show that, absent substantive entitlement reform and/or dramatic changes in tax and spending policies, we will face large, escalating, and persistent deficits. A budget process incorporating new metrics and mechanisms that better signal the long-term commitments and promises made by the government will help concentrate decision makers' efforts on long-term sustainability.

What GAO Recommends

The reinstatement of realistic spending caps and PAYGO is necessary to deal with the near- and medium-term deficit. Beyond that, a fundamental reexamination of existing programs and activities must be undertaken. To enable budget decision makers to consider the full range of the government's commitments, OMB should report annually on fiscal exposures, including a concise list and cost estimates, where possible. To address the nation's fiscal imbalance, we need to employ a three-pronged approach to (1) restructure existing entitlement programs, (2) reexamine the base of discretionary and other spending, and (3) review and revise the federal government's tax policy and enforcement programs.

www.gao.gov/cgi-bin/getrpt?GAO-04-585T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Susan J. Irving at (202) 512-9142 or irvings@gao.gov.

What GAO Found

The long-term fiscal pressures created by the impending retirement of the baby boom generation sharpen the need to look at competing claims on existing federal budgetary resources and emerging new priorities. Truth and transparency in government reporting are essential if the United States is to effectively address these long-term fiscal challenges. Current metrics and mechanisms do not fully inform policy makers about the sustainability of existing federal programs or commitments they are considering making. While Social Security and health programs are the major drivers of the long-term spending outlook, they are not the only promises the federal government has made to the future. The government undertakes a wide range of responsibilities, programs, and activities that may either obligate the government to future spending or create an expectation for such spending. It is useful to think of such fiscal exposures as a spectrum extending from explicit liabilities to the implicit promises embedded in current policy and/or public expectations.

Selected Fiscal Exposures (End of FY 2003)

Type	Example (dollars in billions)
Explicit liabilities	Publicly held debt (\$3,913) Military and civilian pension and post-retirement health (\$2,857) Veterans benefits payable (\$955) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Explicit financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Implicit exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$2,859) ^a Future Social Security benefit payments (\$3,550) ^b Future Medicare Part A benefit payments (\$5,931) ^b Future Medicare Part B benefit payments (\$9,619) ^b Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

Source: GAO analysis.

Note: Updated February 27, 2004.

^aThis amount includes \$774 billion in securities held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

^bFigures for Social Security and Medicare are as of January 1, 2003, and are estimated over a 75-year period. These amounts represent net present value and are net of debt held by the trust funds (\$1,378 billion for Social Security, \$235 billion for Medicare Part A, and \$34 billion for Medicare Part B). The estimate for Social Security over an infinite horizon would be \$10.5 trillion according to the Social Security Trustees' 2003 annual report. There is no infinite horizon estimate for Medicare included in the Medicare Trustees' 2003 annual report. Medicare Part D was enacted after the end of FY 2003.