

United States Government Accountability Office

# 21<sup>st</sup> Century Issues

## Challenges and Opportunities

**David M. Walker**  
Comptroller General  
of the United States



American Association of Community Colleges  
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# The Case for Change

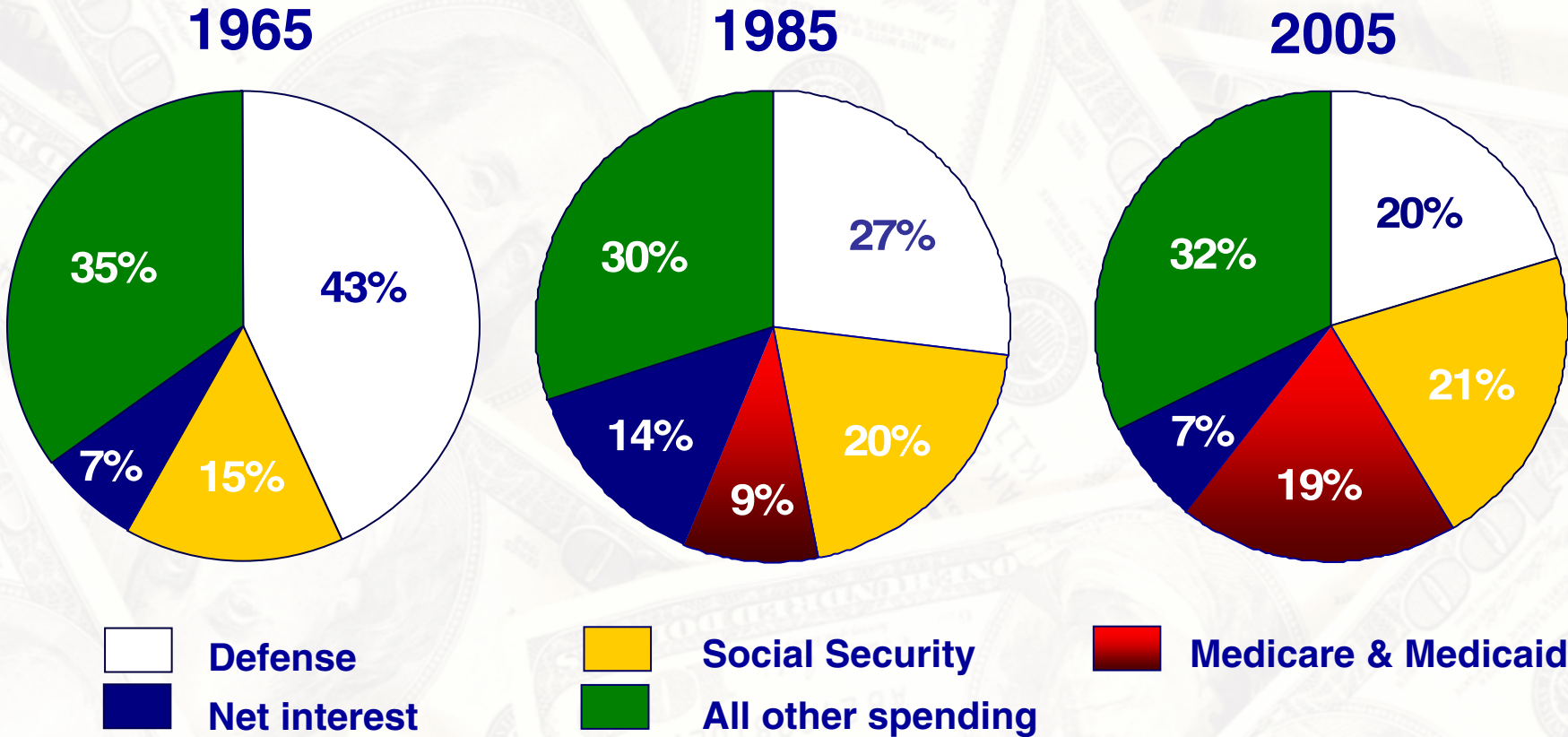
- **Government is on a “burning platform,” and the status quo way of doing business is unacceptable for a variety of reasons, including:**
  - Past fiscal trends and significant long-range challenges
  - Rising public expectations for demonstrable results and enhanced responsiveness
  - Selected trends and challenges having no boundaries
  - Additional resource demands due to recent terrorism events in the United States
  - Government performance/accountability and high risk challenges, including the lack of effective human capital strategies

# FY2005 GAO Audit Report – Emphasis of a Matter

“...More troubling still, the federal government’s financial condition and long-term fiscal outlook is **continuing to deteriorate**...Addressing the nation’s long-term fiscal imbalance constitutes a major **transformational challenge** that may take a generation or more to resolve. Given the size of the projected deficit, the U.S. government will not be able to grow its way out of this problem—**tough choices are required.**”

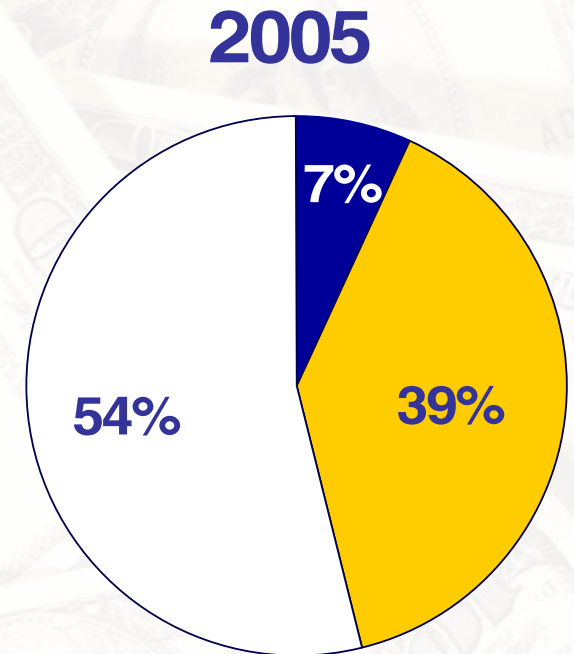
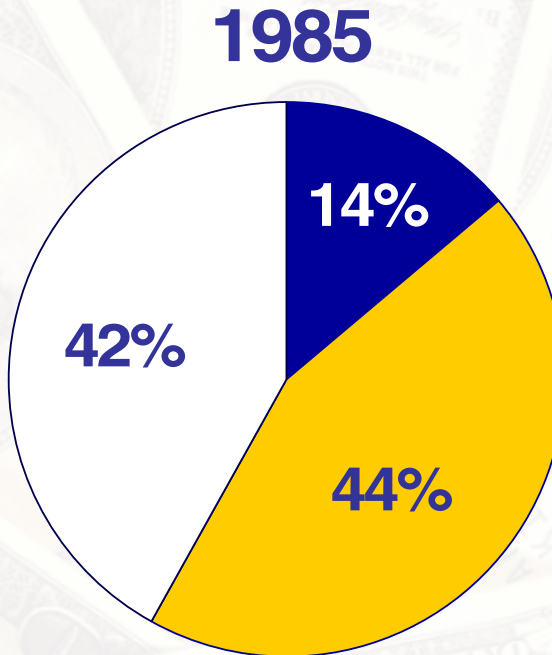
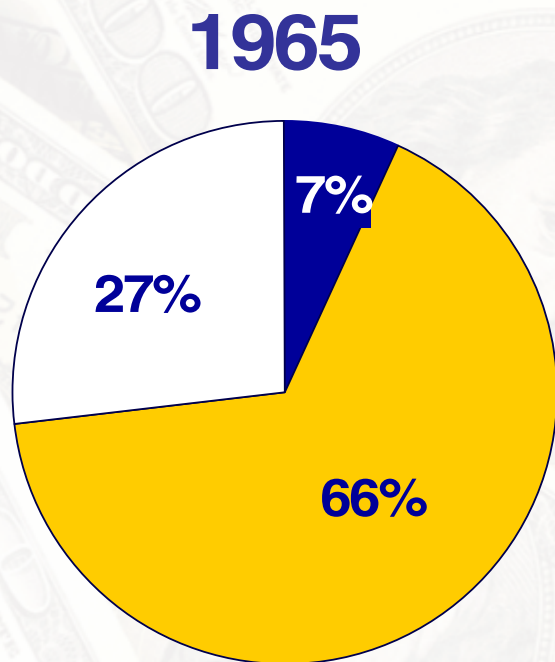


# Composition of Federal Spending



Source: Office of Management and Budget and Department of Treasury, Financial Management Service.

# Federal Spending for Mandatory and Discretionary Programs



 **Net Interest**

 **Discretionary**

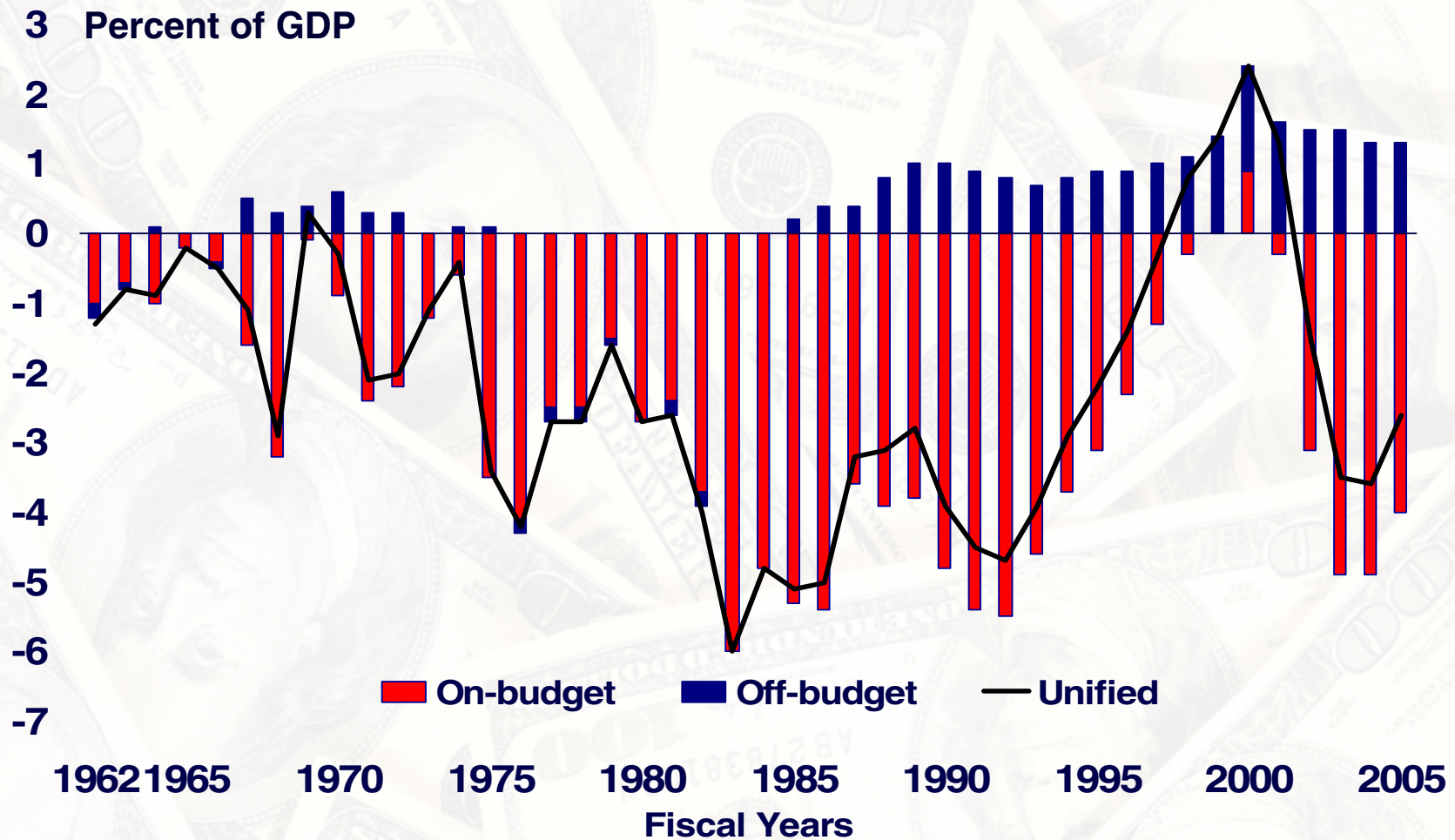
 **Mandatory**

Source: Office of Management and Budget and Congressional Budget Office.

Note: Fiscal year 2005 data are estimated.

# Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2005



Source: Office of Management and Budget and Congressional Budget Office.

# Fiscal Year 2004 and 2005 Deficits and Net Operating Costs

	Fiscal Year 2004	Fiscal Year 2005
	(\$ Billion)	
On-Budget Deficit	(567)	(494)
Off-Budget Surplus*	155	175
Unified Deficit	(412)	(319)
Net Operating Cost	(616)	(760)

\*Includes \$151 billion in fiscal year 2004 and \$173 billion in fiscal year 2005 in Social Security surpluses and \$4 billion in fiscal year 2004 and \$2 billion in fiscal year 2005 in Postal Service surpluses.



# Estimated Fiscal Exposures

(in \$ trillions)

	2000	2005
<ul style="list-style-type: none"> <li>• <b>Explicit liabilities</b> <ul style="list-style-type: none"> <li>• Publicly held debt</li> <li>• Military &amp; civilian pensions &amp; retiree health</li> <li>• Other</li> </ul> </li> </ul>	\$6.9	\$9.9
<ul style="list-style-type: none"> <li>• <b>Commitments &amp; Contingencies</b> <ul style="list-style-type: none"> <li>• E.g., PBGC, undelivered orders</li> </ul> </li> </ul>	0.5	0.9
<ul style="list-style-type: none"> <li>• <b>Implicit exposures</b> <ul style="list-style-type: none"> <li>• Future Social Security benefits</li> <li>• Future Medicare Part A benefits</li> <li>• Medicare Part B benefits</li> <li>• Medicare Part D benefits</li> </ul> </li> </ul>	13.0	35.6
<b>Total</b>	<b>\$20.4</b>	<b>\$46.4</b>

Sources: Consolidated Financial Statements.

Note: Estimates for Social Security and Medicare are PV as of January 1 of each year as reported in the Consolidated Financial Statements and all other data are as of September 30.



# How Big is Our Growing Fiscal Burden?

	2000	2005
<b>Total Fiscal Exposures</b>	<b>\$20.4 trillion</b>	<b>\$46.4 trillion</b>

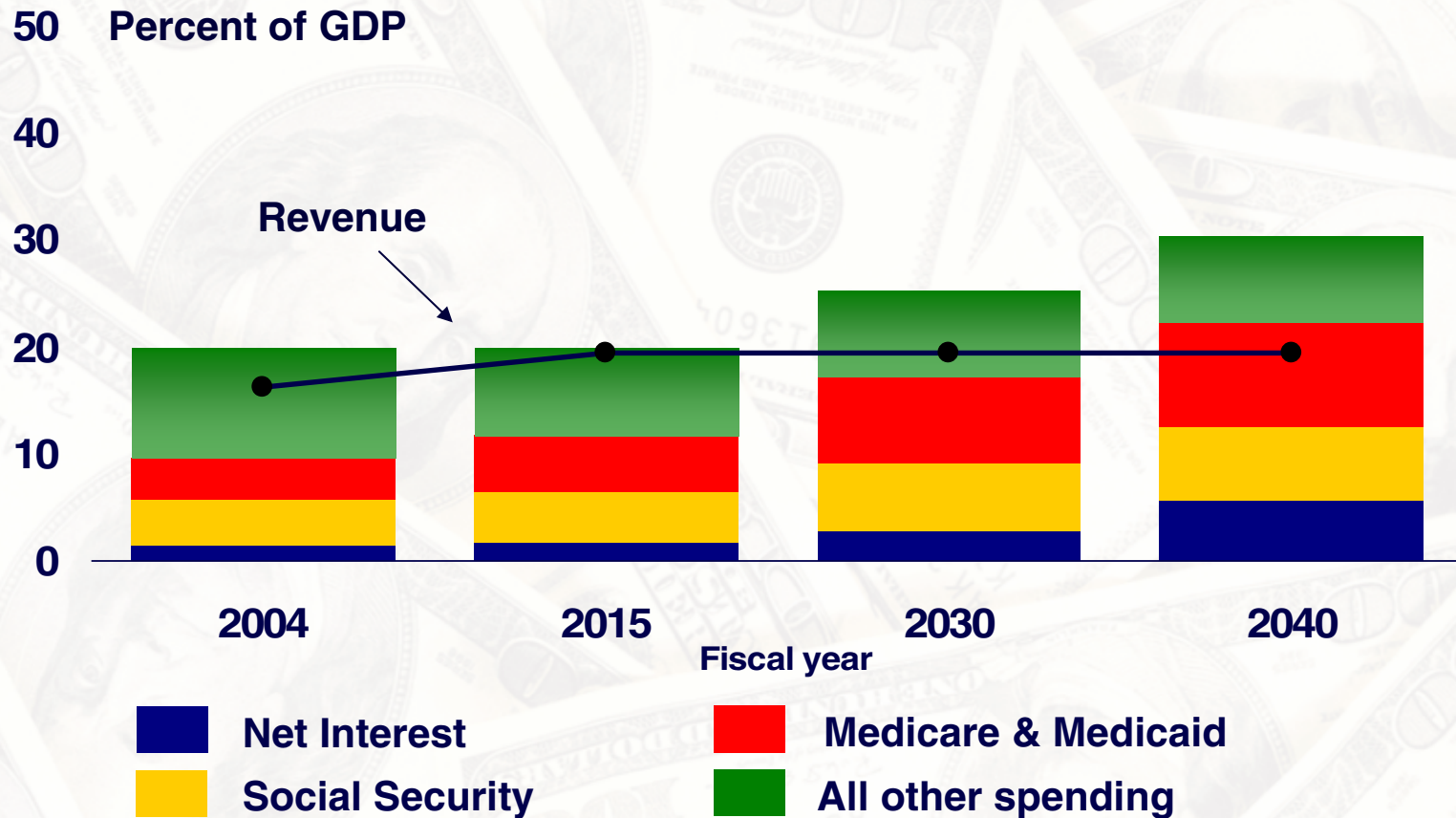
## Burden

<b>Per Person</b>	<b>\$72,000</b>	<b>\$156,000</b>
<b>Per Full-time Worker</b>	<b>\$165,000</b>	<b>\$375,000</b>
<b>Per Household</b>	<b>\$189,000</b>	<b>\$411,000</b>

Sources: GAO analysis.

# Composition of Spending as a Share of GDP

## Under Baseline Extended

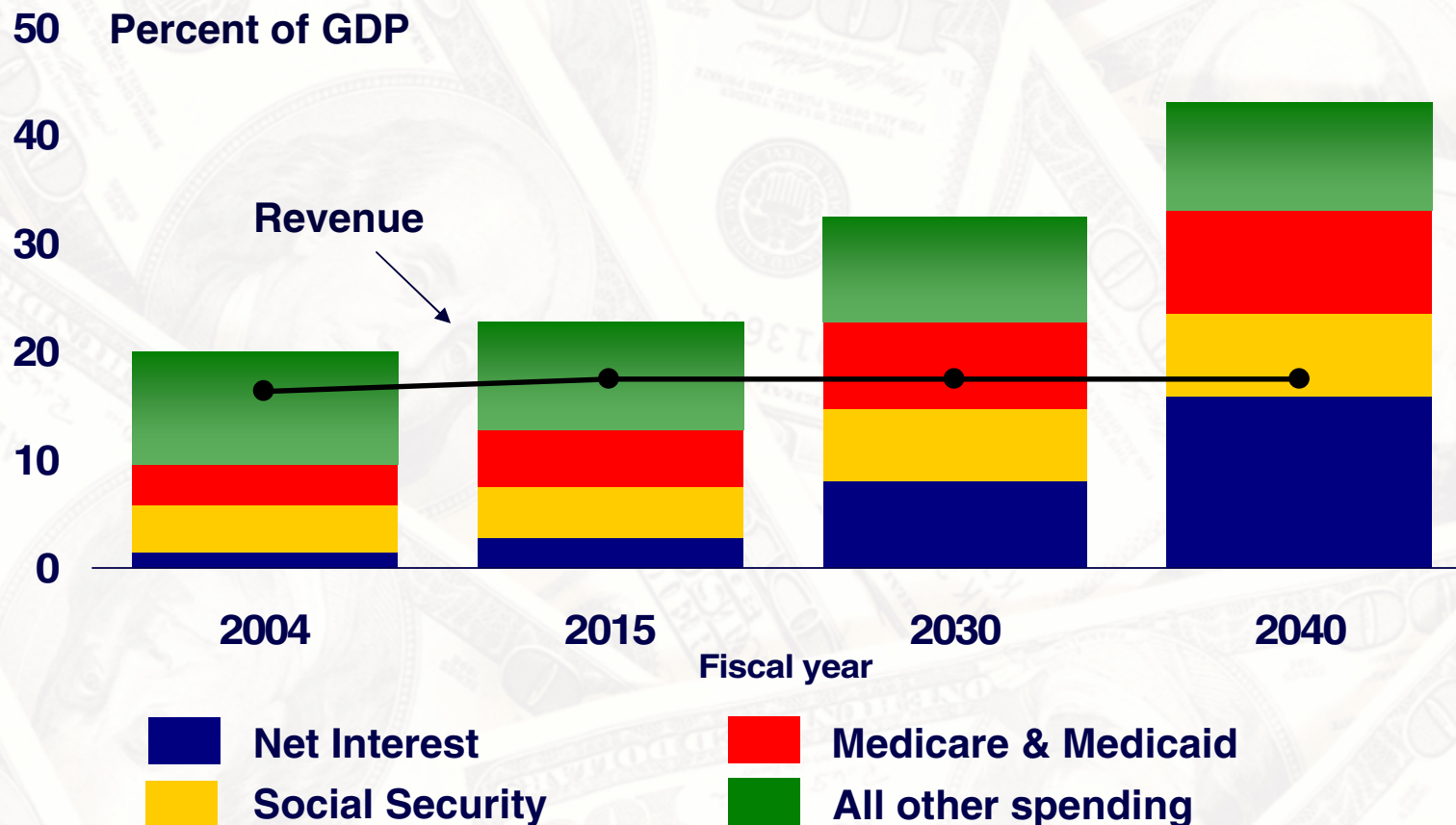


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's August 2005 analysis.

# Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005  
and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's August 2005 analysis.



# Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
  - Cutting total federal spending by about 60 percent or
  - Raising federal taxes to 2 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

# The Way Forward: Three Pronged Approach

**Re-impose budget controls and enhance legislative process**

**Improve accounting and reporting and metrics**

**Re-examine, re-prioritize and re-engineer the base of current federal spending programs and tax policies**

# Action, Education, and Debate Are Required Now

- **The Sooner We Get Started, the Better**
  - The miracle of compounding is currently working against us
  - Less change would be needed, and there would be more time to make adjustments
  - Our demographic changes will serve to make reform more difficult over time
- **Need Public Education, Discussion, and Debate**
  - The role of government in the 21<sup>st</sup> Century
  - Which programs and policies should be changed and how
  - How government should be financed



# 21<sup>st</sup> Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



# Twelve Reexamination Areas

## MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

## CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

# Illustrative 21<sup>st</sup> Century Questions:

## **National Defense**

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?

## **Homeland Security**

- What criteria should be used to target federal funding for homeland security in order maximize results and mitigate risk within available resource levels?

## **Health Care**

- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation?



# Illustrative 21<sup>st</sup> Century Questions:

## **Retirement and Disability Policy**

- How can federal disability programs, and their eligibility criteria, be brought into line with the current state of science, medicine, technology, and labor market conditions?

## **Natural Resources, Energy, & the Environment**

- To what extent are federal energy policies and incentive structures adequately preparing the nation to satisfy its energy needs over the long term?

## **International Affairs**

- Do we need to reexamine the U.S. force structure used for nation building and peacekeeping activities by the United Nations, NATO, and other international institutions?

# Illustrative 21<sup>st</sup> Century Questions:

## **Education & Employment**

- How can the United States balance immigration policies—such as worker and student visa programs—to address employers' need for particular skills, the nation's need to maintain global leadership in areas such as science and higher education, and the nation's homeland security requirements?

## **Transportation**

- How narrowly or broadly should the federal role and interest in the nation's transportation system be defined?

## **Financial Regulation & Housing**

- To what extent do the tools and incentives increase spending on housing rather than promote affordable housing?

# Illustrative 21<sup>st</sup> Century Questions:

## **Scientific & Technological Innovation**

- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers?

## **Governance**

- Is the federal government effectively informed by a key national indicator system about the position and progress of the nation as a whole as a guide to helping set agency and program goals and priorities?

## **Tax System**

- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives?



# Educators Must Deliver the Tools to Address 21<sup>st</sup> Century Challenges

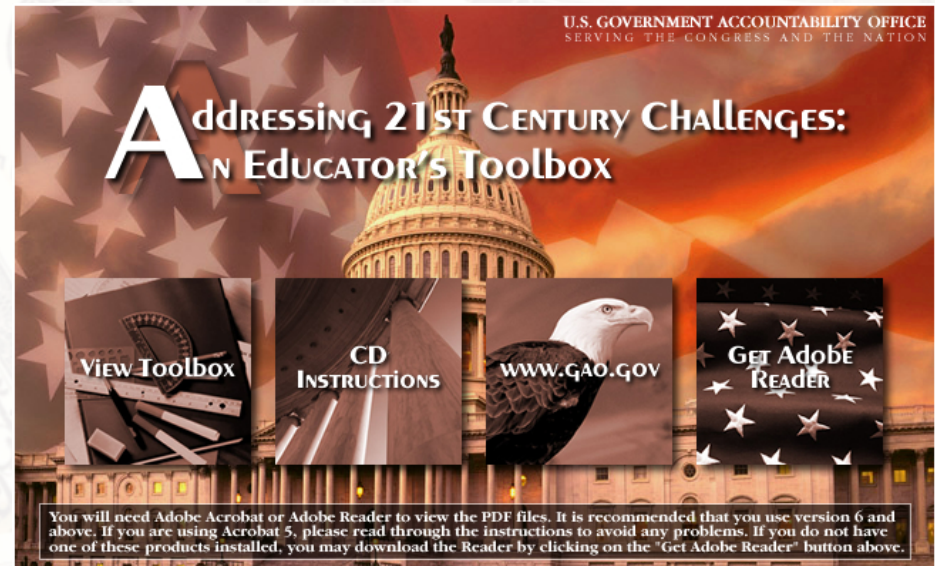
**Public affairs educators have a responsibility to ensure that our next generation of leaders has the necessary core values and competencies to address the problems:**

- Re-focus curricula
- Pursue key areas of research
- Incorporate outside speakers
- Develop classroom exercises
- Promote relevant dissertation topics
- Raise awareness through op-eds and articles
- Participate in Town Hall meetings and other public fora

# Addressing 21<sup>st</sup> Century Challenges: An Educator's Toolbox

## Toolbox Contents:

- 21st Century Challenges
- High Risk Series
- GAO Strategic Plan
- Understanding the Tax Reform Debate
- Social Security Reform: Answers to Key Questions
- Comptroller General's Health Care Forum
- Motor Fuels: Understanding the Factors That Influence the Retail Price of Gasoline
- Federal Debt: Answers to Frequently Asked Questions



# Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Creativity***
- ***Stewardship***



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