GAO

Highlights

Highlights of GAO-19-314SP

An Annual Report to Congress

The Nation's Fiscal Health

Action Is Needed to Address the Federal Government's Fiscal Future

Congress and the administration face serious economic, security, and social challenges that require difficult policy choices in the near term in setting national priorities and charting a path forward for economic growth. This will influence the level of federal spending and how the government obtains needed resources. At the same time, the federal government is highly leveraged in debt by historical norms.

A broad plan is needed to put the federal government on a sustainable long-term fiscal path and ensure that the United States remains in a strong economic position to meet its security and social needs, as well as to preserve flexibility to address unforeseen events. This report describes the fiscal condition of the U.S. government as of the end of fiscal year 2018 and its future unsustainable fiscal path absent policy changes. It draws on the *Fiscal Year 2018 Financial Report of the United States Government (2018 Financial Report)* and GAO's audit of the government's consolidated financial statements.

Significant Changes to the Government's Fiscal Condition in Fiscal Year 2018

According to the *2018 Financial Report*, the federal deficit in fiscal year 2018 increased to $779 billion—up from $666 billion in fiscal year 2017. Federal receipts increased by $14 billion, but that was outweighed by a $127 billion increase in spending driven by, among other things, increases in defense, interest on debt held by the public (net interest), Social Security, Medicaid, and disaster relief and flood insurance. Cumulative debt held by the public increased from $14.7 trillion (or 76 percent of gross domestic product (GDP)) at the end of fiscal year 2017 to $15.8 trillion (or 78 percent of GDP) at the end of fiscal year 2018. By comparison, debt has averaged 46 percent of GDP since 1946.

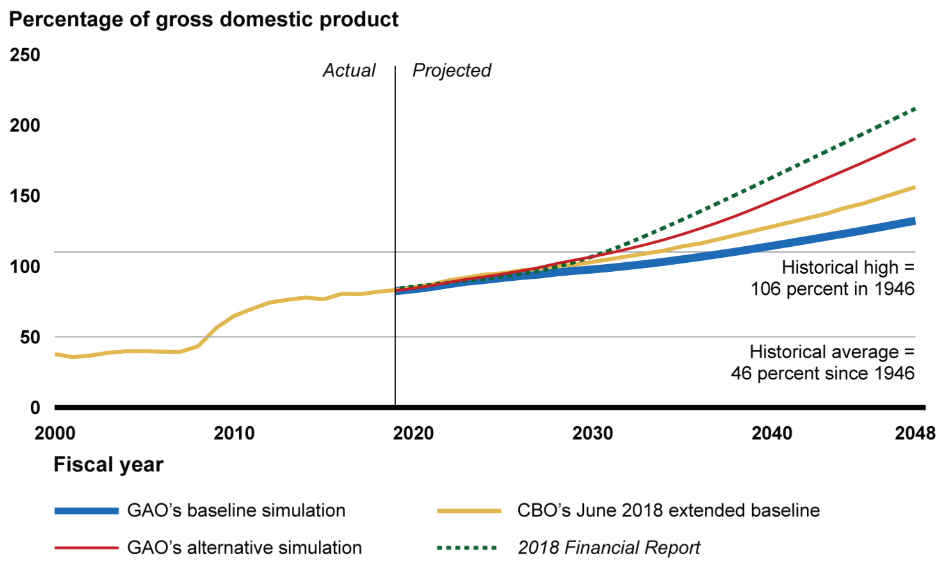
Long-Term Fiscal Projections Show the Federal Government Is on an Unsustainable Fiscal Path

In the long term, the key drivers of growing federal spending are health care programs and net interest, according to the *2018 Financial Report*, CBO, and GAO. In its alternative simulation, GAO projects that

- federal health care spending will increase from 5.4 percent of GDP in fiscal year 2018 to 8.6 percent of GDP in fiscal year 2048, and
- net interest will increase from1.6 percent of GDP in fiscal year 2018 to 6.7 percent of GDP in fiscal year 2048.

The *2018 Financial Report*, the Congressional Budget Office (CBO), and GAO projections all show that, absent policy changes, the federal government's fiscal path is unsustainable and that the debt-to-GDP ratio will surpass its historical high of 106 percent within 13 to 20 years (see figure below).

Debt Held by the Public under Projections from the *2018 Financial Report*, the Congressional Budget Office (CBO), and GAO



Sources: GAO, Congressional Budget Office, and *2018 Financial Report*. | GAO-19-314SP

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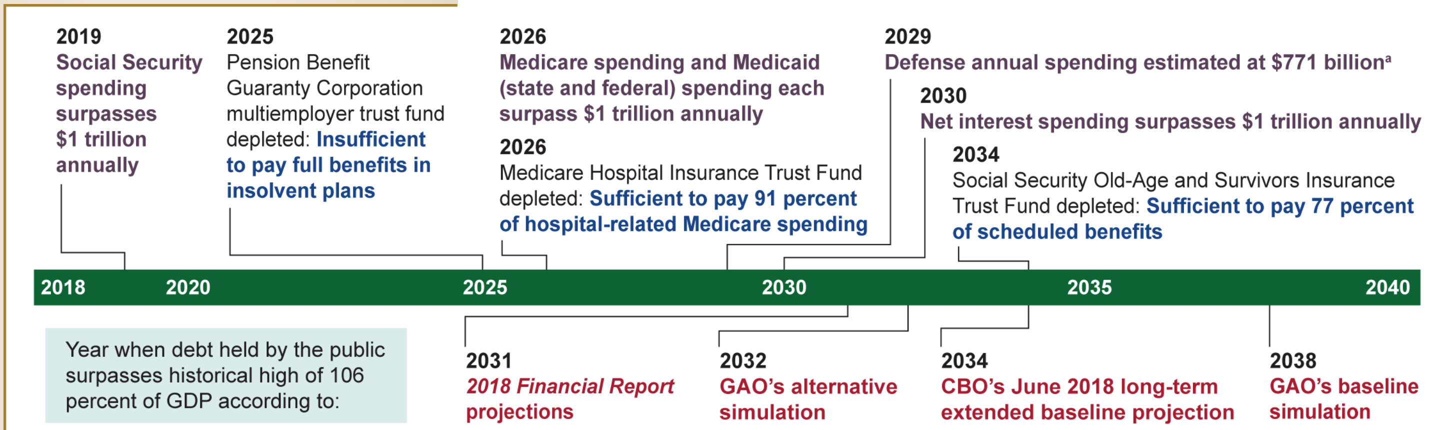
Long-Term Fiscal Projections Show the Federal Government Is on an Unsustainable Fiscal Path

(continued)

Importance of Early Action: The *2018 Financial Report*, CBO, and GAO state that the longer action is delayed, the greater the changes will have to be. As shown below, major programs are projected to face financial challenges in the future.



Sources: Trustees for Social Security and Medicare, Congressional Budget Office (CBO), Centers for Medicare & Medicaid Services, GAO, and *2018 Financial Report*. | GAO-19-314SP

[a]CBO did not report defense spending projections separately from total discretionary spending in its long-term projections after 2029.

Debt Limit Is Not a Control on Debt

The debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time. It is not a control on debt but rather an after-the-fact measure that restricts the Department of the Treasury's (Treasury) authority to borrow to finance the decisions already enacted by Congress and the President.

Alternative Approach to Managing Debt Is Needed: At the time of this report, Treasury is taking extraordinary actions to continue funding government activities since the debt limit suspension period ended on March 1, 2019. Failure to increase or suspend the debt limit in a timely manner disrupts the Treasury market and can increase borrowing costs. Treasury securities play a vital role in financial markets. The full faith and credit of the U.S. must be preserved. GAO has recommended possible alternative approaches to the current debt limit. Experts have also suggested instituting a fiscal rule imposed on spending and revenue decisions. Congress could consider these suggestions as part of a broader plan to put the government on a sustainable fiscal path.

Fiscal Risks Place Additional Pressure on the Federal Budget

Fiscal risks are responsibilities, programs, and activities that may legally commit or create expectations for future spending based on current policy, past practices, or other factors.

The federal government faces certain fiscal risks that are not fully accounted for in the budget and could lead to future spending increases and higher levels of debt. Examples include natural disasters and financial challenges like resolving the federal government's role in the housing finance market. A more complete understanding of fiscal risks can help policymakers anticipate changes in future spending and enhance oversight of federal resources.

Executive Agencies Have Opportunities to Contribute Toward Fiscal Health

Executive actions alone cannot put the U.S. government on a sustainable fiscal path, but it is important for agencies to act as stewards of federal resources. In prior work, GAO has identified numerous actions for executive agencies to contribute toward a sustainable fiscal future.

Actions needed to address improper payments	Reducing payments that should not have been made or that were made in an incorrect amount could yield significant savings. Reported improper payment estimates totaled about $151 billion for fiscal year 2018. Since fiscal year 2003, cumulative estimates have totaled about $1.5 trillion.
Multiple strategies needed to address persistent tax gap	Reducing the gap between taxes owed and those paid could increase tax collections by billions of dollars annually. The average annual net tax gap is estimated to be $406 billion (for tax years 2008-2010).
Continue to address duplication, overlap, and fragmentation	GAO has identified numerous areas to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue. Actions taken so far by Congress and the executive branch have resulted in achieved and projected financial benefits of roughly $178 billion since fiscal year 2010.
Action needed to improve information on programs and fiscal operations	Decision making could be improved by ensuring the government's financial statements are fully auditable and by increasing attention to tax expenditures—tax provisions that reduce tax liabilities. Estimated to collectively reduce tax revenue by over $1 trillion in fiscal year 2018, tax expenditures are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes.