



Testimony
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U.S. Senate

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THE NATION'S FISCAL HEALTH

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

Statement of Gene L. Dodaro
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Chairman Enzi, Ranking Member Sanders, and Members of the Committee:

I appreciate the opportunity to be here today to discuss our report on the fiscal condition and long-term fiscal path of the U.S. government.

Long-term fiscal projections by GAO, the Congressional Budget Office (CBO), and in *the 2019 Financial Report of the U.S. Government (2019 Financial Report)* all show that, absent policy changes, the federal government continues to face an unsustainable long-term fiscal path.¹ Although the assumptions in each of these projections vary somewhat, all result in the same conclusion: over the long term, the imbalance between spending and revenue that is built into current law and policy will lead to (1) deficits exceeding \$1 trillion each year beginning in fiscal year 2020, and (2) both the annual deficit and the cumulative total debt held by the public continuing to grow as shares of gross domestic product (GDP).² This situation—in which debt grows faster than GDP—means the current federal fiscal path is unsustainable.

Decisions in the near term to support economic growth and address the security and social challenges the nation faces need to be accompanied by a broader fiscal plan to put the federal government on a sustainable long-term path. This is essential to ensure that the United States remains in a strong economic position to meet its security and social needs. It is also necessary to preserve flexibility to address potentially urgent or unforeseen events, such as natural disasters, economic downturns, cyberattacks, and military conflicts.

GAO's Fiscal Health report provides information on (1) the unsustainable fiscal path and its primary drivers, (2) growing fiscal pressures that could further strain the federal budget, (3) why it is important to change the

¹The Financial Report is prepared each year by the Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget. The *2019 Financial Report's* Statement of Long-Term Fiscal Projections presents, for all the activities of the federal government, the present value of projected receipts and noninterest spending under current policy without change, the relationship of these amounts to projected GDP, and changes in the present value of projected receipts and noninterest spending from the prior year.

²For more information on these assumptions, see appendix I of the report being released in conjunction with this testimony, GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, [GAO-20-403SP](#) (Washington, D.C.: Mar. 12, 2020).

fiscal path, and (4) the need to take a new approach to managing the debt.

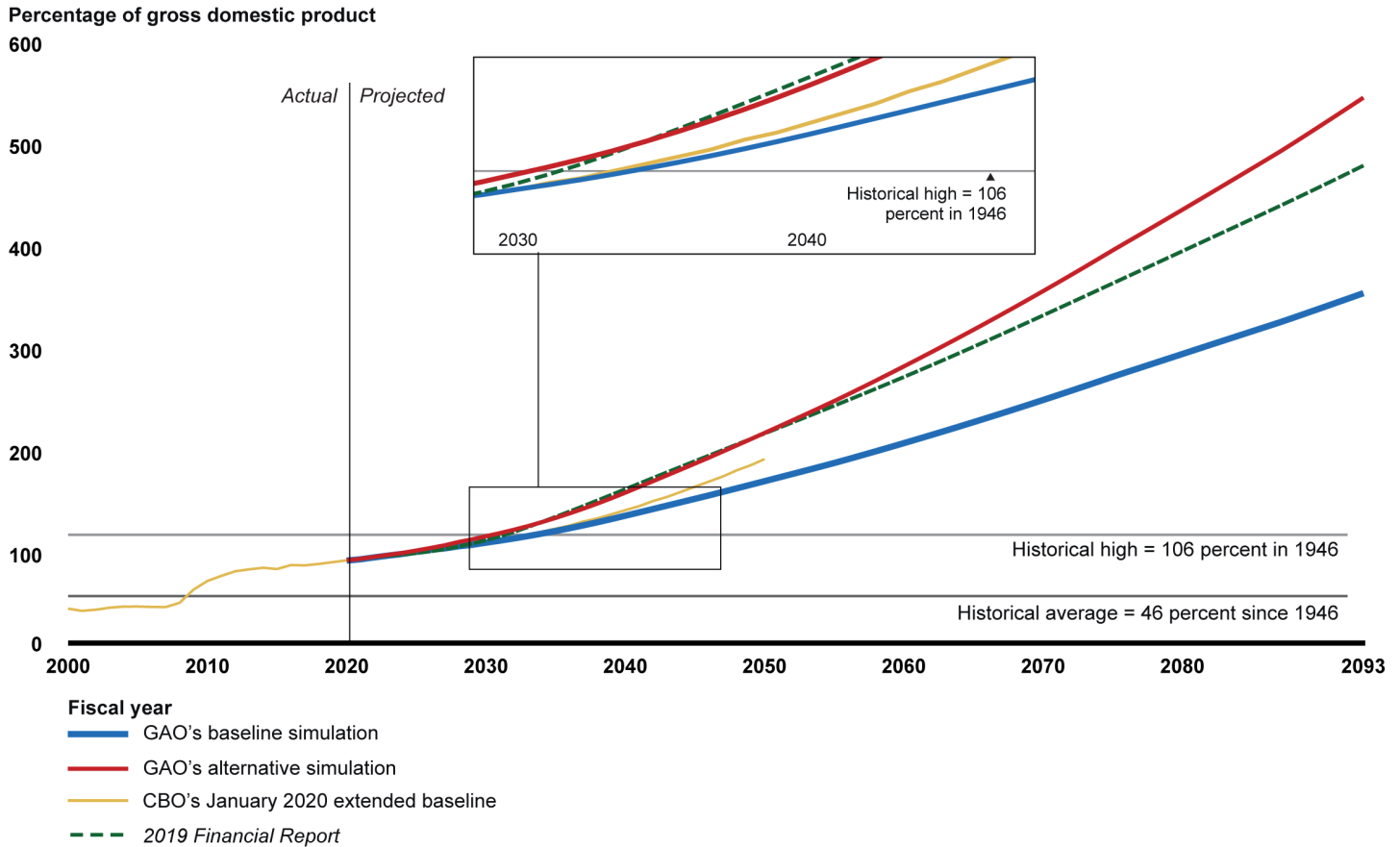
My statement is based upon our 2020 annual report on the nation's fiscal health, which leverages our fiscal year 2019 audit of the U.S. government's consolidated financial statements; our work on natural disasters; 2019 High-Risk List; the 2019 fragmentation, overlap, and duplication annual report; and other related work.³ The work upon which this statement is based was conducted in accordance with generally accepted government auditing standards.

The Federal Government Is on an Unsustainable Fiscal Path

By the end of fiscal year 2019, the federal debt held by the public had climbed to 79 percent of GDP. By comparison, such debt has averaged 46 percent of GDP annually since 1946. If current trends continue, debt as a share of GDP will exceed the historic high 1946 level of 106 percent of GDP within 11 to 14 years. In 2050, it will be nearly twice that level and about four times its post-World War II average. Figure 1 shows that in GAO, CBO, and 2019 *Financial Report* projections, debt held by the public as a share of GDP grows substantially over time.

³GAO, *2019 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, [GAO-19-285SP](#) (Washington, D.C.: May 21, 2019); *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019); and *Financial Audit: Fiscal Years 2019 and 2018 Consolidated Financial Statements of the U.S. Government*, [GAO-20-315R](#) (Washington, D.C.: Feb 27, 2020).

Figure 1: Debt Held by the Public under Projections from GAO, the Congressional Budget Office (CBO), and the 2019 Financial Report of the U.S. Government



Sources: GAO, Congressional Budget Office, and 2019 Financial Report of the U.S. Government. | GAO-20-482T

Note: For information on the assumptions made in GAO's simulations, see [GAO-20-403SP](#), appendix I.

Spending Outlook Is Driven by Health Care and Net Interest on the Debt

Under GAO, CBO, and the 2019 Financial Report projections, spending for the major health and retirement programs grows more rapidly than GDP in coming decades. This is a consequence of both an aging population and projected continued increases in health care costs per beneficiary. Medicare spending is expected to exceed \$1 trillion per year

by fiscal year 2026, and Social Security spending already exceeds \$1 trillion per year.⁴

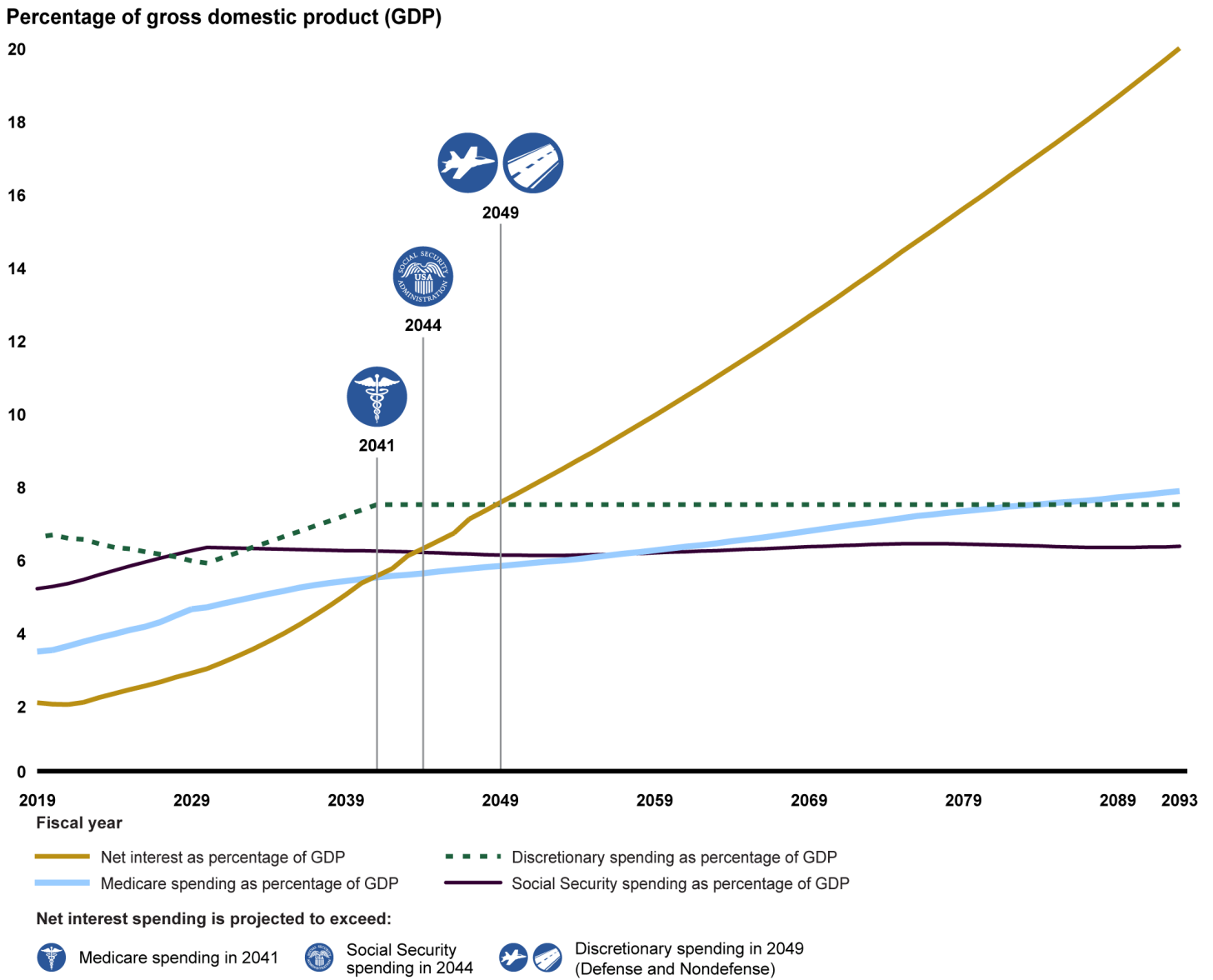
However, according to the projections, these spending categories will eventually be overtaken by spending on net interest, which primarily consists of interest costs on the federal government's debt held by the public. In recent years, persistently low interest rates have resulted in lower interest costs for the government than previously projected. Despite these low interest rates, spending on net interest grew from \$263 billion in 2017 to \$376 billion in 2019. That \$376 billion is 8.4 percent of total federal spending, which exceeded combined spending on agriculture, transportation, and veterans' benefits and services.

Going forward, both interest rates and the debt are projected to grow, which means spending on net interest is projected to grow faster than any other component of the budget.⁵ In 2032, spending on net interest is projected to exceed \$1 trillion annually. Over the past 50 years, net interest costs have averaged 2 percent of GDP but these costs are projected to increase to 7.2 percent by 2049. As figure 2 shows, we project that as a share of GDP, net interest spending will exceed Medicare spending in 2041, Social Security spending in 2044, and total Discretionary spending in 2049.

⁴Medicaid spending is projected to exceed \$1 trillion per year by fiscal year 2026 as well but includes both state and federal spending.

⁵GAO's long-term fiscal projections use CBO's projected interest rates. In its January 2020 *Budget and Economic Outlook*, CBO lowered its interest rate projections, estimating that the average interest rate on debt held by the public will rise from 2.5 percent in fiscal year 2019 to 2.8 percent in fiscal year 2030. This projection is lower than CBO's previous projection that rates would rise to 3.5 percent in fiscal year 2029. See CBO, *The Budget and Economic Outlook: 2020 to 2030* (Washington, D.C.: January 2020).

Figure 2: Projected Net Interest and Other Spending as a Percentage of Gross Domestic Product



Source: GAO. | GAO-20-482T

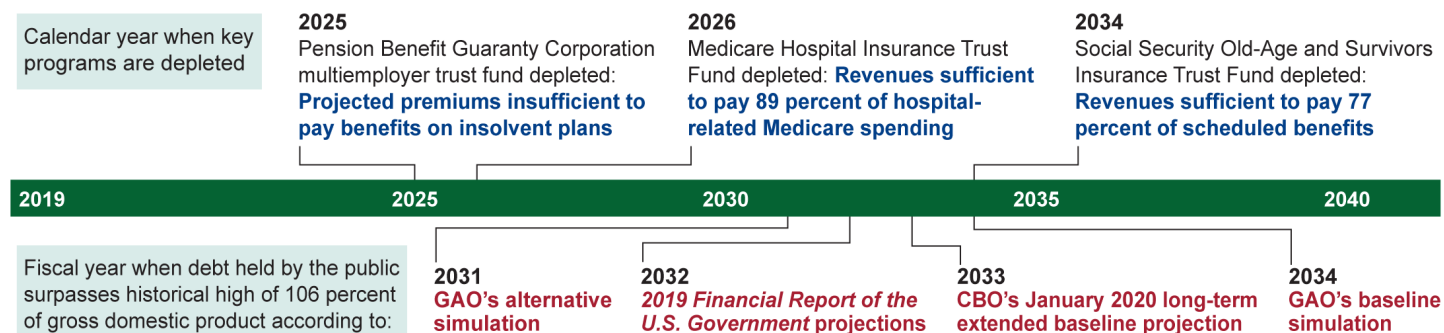
Interest costs will also depend in part on the outstanding mix of Treasury securities. The Department of the Treasury issues securities in a wide range of maturities to appeal to a broad range of investors to support its

goal of borrowing at the lowest cost over time.⁶ Treasury refinances maturing debt by issuing new debt in its place at the prevailing interest rate. At the end of fiscal year 2019, 61 percent of the outstanding amount of marketable Treasury securities held by the public (about \$9.9 trillion) was scheduled to mature in the next 4 years.⁷ If interest rates are higher, Treasury will have to refinance these securities at the higher interest rates, adding to the interest costs of the growing federal debt.

Action Is Needed to Address an Unsustainable Fiscal Path

Impending financial challenges for major programs and fiscal risks are both straining the federal budget and contributing to the growing debt. Sustaining key programs will require changes (see fig. 3).

Figure 3: Key Dates for Major Programs and Future Debt



Sources: Pension Benefit Guaranty Corporation, Trustees for Social Security and Medicare, Congressional Budget Office (CBO), Centers for Medicare & Medicaid Services, GAO, and *2019 Financial Report of the U.S. Government*. | GAO-20-482T

Note: In December 2019, the enactment of the Bipartisan American Miners Act of 2019 provided additional funding for future annual Treasury transfers to the 1974 United Mine Workers of America Pension Plan (included in the Pension Benefit Guaranty Corporation's multiemployer program). The Pension Benefit Guaranty Corporation is currently assessing the effect of the legislation on the multiemployer program's estimated insolvency date.

⁶The interest rates associated with the range of maturities of the nominal securities issued by Treasury create a "yield curve" which represents the relationship between the maturity of an asset and its yield (the interest rate paid by Treasury or cost of borrowing).

⁷Marketable securities are securities that can be resold by whomever owns them. At the end of fiscal year 2019, 97 percent of the outstanding amount of securities that constitute debt held by the public was marketable. For more information, see GAO, *Financial Audit: Bureau of the Fiscal Service's Fiscal Years 2019 and 2018 Schedules of Federal Debt*, GAO-20-117 (Washington, D.C.: Nov. 8, 2019).

The President's Budget, CBO, and the Chair of the Board of Governors of the Federal Reserve System all make it clear that rising federal debt could have long-term consequences for the economy. For example it could:

- constrain Congress's ability to support the economy or address other national priorities,
- restrain private investment and thereby reduce productivity and overall growth, and
- erode confidence in the U.S. dollar.

In addition, it may increase the risk of a fiscal crisis, in which investors would lose confidence in the U.S. government's financial position, and interest rates on Treasury securities would increase abruptly.

To change the long-term fiscal path, policymakers will need to consider policy changes to the entire range of federal activities, both revenue (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending).⁸ As Congress considers changes in revenue and spending policies to improve the federal government's long-term fiscal path, it will also need to consider other approaches for managing the level of debt.

As currently structured, the debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time. The debt limit does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt, nor does it otherwise constrain fiscal policy. Without legislation to suspend or raise the debt limit, Treasury cannot continue issuing debt to finance the decisions already enacted by Congress and the President.⁹ We have reported on the negative impacts of uncertainty around the debt limit which include (1) increased Treasury borrowing costs, (2) decreased demand for Treasury securities, and (3)

⁸Tax expenditures are provisions of the tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

⁹The Bipartisan Budget Act of 2019 has suspended the debt limit through July 31, 2021. Pub. L. No. 116-37, § 301, 133 Stat. 1049, 1057 (2019).

constrained Treasury cash management.¹⁰ We have reported numerous times that the full faith and credit of the United States must be preserved.

We have also recommended that Congress consider other approaches to the current debt limit to avoid seriously disrupting the Treasury market and increasing borrowing costs and to allow it to better manage the federal government's level of debt. A number of bills have been introduced in this Congress to address this issue. The Senate Budget Committee's proposal to reform the Congressional budget process would automatically adjust the debt limit to conform to levels established in the budget resolution.

In contrast to the debt limit, fiscal rules can support efforts to achieve fiscal sustainability by imposing numerical limits or targets on the budget to guide fiscal policy. Fiscal rules are intended to influence decisions about spending and revenue as they are made.¹¹

The Senate Budget Committee's proposal to reform the Congressional budget process is an example of one such approach. This legislation would specify target ratios for debt as a share of GDP and track legislation against that target. As Congress continues to consider options, two key points should be emphasized.

- An agreed-upon goal can help policymakers justify and frame their choices. With that in mind, a fiscal target that establishes a common goal for controlling the size of the federal debt relative to the economy—as well as well-designed rules that put the federal government on a path to achieve that target—could form part of a long-term fiscal plan to put the government on a sustainable fiscal path.
- The longer action is delayed, the greater and more drastic the changes will have to be, placing an additional burden on future generations.

While changes in spending and revenue to ensure long-term fiscal sustainability require legislative actions to alter fiscal policies, executive agencies can also take actions to contribute toward a sustainable fiscal

¹⁰GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches* [GAO-15-476](#) (Washington, D.C.: July 9, 2015).

¹¹At the request of the Chairman of the Senate Budget Committee and Ranking Member of the House Budget Committee, we are examining the design, implementation, and enforcement of fiscal rules and targets in other countries.

future. Although executive actions alone cannot put the U.S. government on a sustainable fiscal path, it is important for agencies to act as stewards of federal resources. These actions include reducing improper payments, which agencies estimate totaled \$175 billion in fiscal year 2019; addressing the \$381 billion annual net tax gap; better managing fragmentation, overlap, and duplication across the federal government; and improving information on federal programs and fiscal operations to aid agency decision-making.

Chairman Enzi, Ranking Member Sanders, and Members of the Committee, this completes our prepared statement. We would be pleased to respond to any questions that you may have.

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