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THE NATION'S FISCAL HEALTH

A Long-Term Plan Is Needed for Fiscal Sustainability

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Comptroller General of the United States

GAO-21-161T

GAO Highlights

Highlights of GAO-21-161T, a testimony before the Subcommittee on Fiscal Responsibility and Economic Growth, Committee on Finance, U.S. Senate

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A Long-Term Plan Is Needed for Fiscal Sustainability

Why GAO Did This Study

By the end of fiscal year 2019, debt held by the public had climbed to 79 percent of GDP. The Congressional Budget Office (CBO) projects debt to reach 107 percent of GDP by 2023, its highest point in history. In addition, CBO projects that annual deficits will exceed $1 trillion in each of the next 10 years.

As currently structured, the federal debt limit is not a control on debt, but a legal limit on the total amount of federal debt that can be outstanding at one time. It restricts the Department of the Treasury's (Treasury) authority to borrow to finance fiscal decisions that have already been made. Uncertainty around the debt limit increases borrowing costs and decreases demand for Treasury securities, among other things.

This statement focuses on (1) the federal government's unsustainable long-term fiscal path, (2) actions needed to address the federal government's fiscal challenges, and (3) executive agencies' opportunities to contribute to fiscal health.

This statement is based upon GAO's September 2020 report on fiscal rules and targets, and GAO's March 2020 annual report on the nation's fiscal health. GAO updated certain information with new data from CBO and others.

What GAO Recommends

GAO has previously suggested that Congress (1) establish a long-term plan that includes fiscal rules and targets and (2) consider alternative approaches to the debt limit.

View GAO-21-161T. For more information, contact Jeff Arkin at arkinj@gao.gov or (202) 512-6806, or Susan J. Irving at irvings@gao.gov or (202) 512-6806.

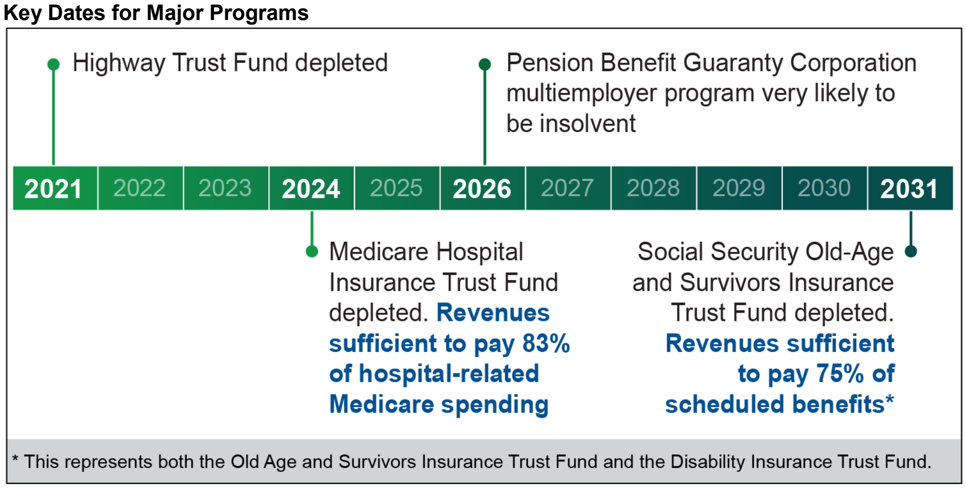
What GAO Found

The federal government faced an unsustainable long-term fiscal path—even before complications resulting from COVID-19—caused by an imbalance between revenue and spending built into the structure of current law. Congress and the administration have taken necessary actions—which totaled $2.6 trillion—to respond to COVID-19 and the resulting severe economic downturn. Once public health goals have been attained and the economy has substantially recovered, Congress and the administration should swiftly implement a broad plan to address the long-term fiscal outlook.

This plan could benefit from the inclusion of fiscal rules and targets, which guide fiscal policy by controlling factors like expenditures, revenue, or the ratio of debt to gross domestic product, as well as from an alternative approach to the debt limit.

The nation also faces impending fiscal pressures for major programs, which add to the need for action (see figure).

Key Dates for Major Programs



Sources: Pension Benefit Guaranty Corporation and Congressional Budget Office. | GAO-21-161T

Notes: Years above may reflect either fiscal or calendar years. The Congressional Budget Office projections for the trust funds reflect the effects of COVID-19. Pension Benefit Guaranty Corporation projections do not reflect the effects of COVID-19.

The federal government also faces certain fiscal exposures—including unforeseen events like COVID-19 and natural disasters—that present risks to its future fiscal condition. In addition, executive agencies could achieve billions of dollars in financial benefits by reducing improper payments and the tax gap; increasing scrutiny of tax expenditures; and continuing to address duplication, overlap, and fragmentation in federal programs.

Chairman Cassidy, Ranking Member Hassan, and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss our nation's fiscal health and the actions needed to chart a more sustainable long-term fiscal path.

I have long been concerned about the federal government's long-term fiscal outlook. Recently, the Coronavirus Disease 2019 (COVID-19) pandemic has necessitated a major federal response to address our national public health emergency and resulting economic turmoil. While it is essential to confront COVID-19 and heal our economy, these efforts further complicate our government's fiscal condition.

Congress and the administration have taken action on multiple fronts to address challenges that have contributed to the loss of life and profound economic disruption. These actions have directed much-needed federal assistance—totaling $2.6 trillion—to support individuals and many public and private entities, including local public health systems and private-sector businesses. These short-term fiscal decisions have appropriately focused on protecting public health and the economy, and more assistance will likely be warranted. However, over the longer term, Congress and the administration need to take action to address the federal government's fiscal challenges.

This necessary fiscal response, combined with the severe economic contraction from the pandemic, have generated a substantial increase in federal debt which is expected to continue, as expenditures increase and tax revenues fall. These fiscal challenges will require attention once the economy has substantially recovered and public health goals have been attained.

Once the current crisis abates, Congress and the administration need to swiftly put in place a broad plan to put the federal government on a sustainable long-term fiscal path. Such a plan is needed to ensure that the United States remains in a strong economic position to meet its social and security needs, as well as to preserve flexibility to address unforeseen events like COVID-19. This plan could benefit from the inclusion of fiscal rules and targets—which guide fiscal policy by controlling factors like expenditures, revenue, or the ratio of debt to gross domestic product (GDP)—as well as an alternative approach to the debt limit as currently structured.

My statement today focuses on (1) the federal government's unsustainable long-term fiscal path, (2) actions needed to address the federal government's fiscal challenges, and (3) executive agencies' opportunities to contribute to fiscal health. My statement is based upon our September 2020 report on fiscal rules and targets and our March 2020 annual report on the nation's fiscal health.[1]

For the September 2020 report, we analyzed Congressional Budget Office (CBO) data on the nation's fiscal condition, analyzed relevant literature, and interviewed experts, among other things. For the March 2020 report, we leveraged our fiscal year 2019 audit of the U.S. government's consolidated financial statements and our 2019 High Risk List, among other things.[2] More information about our objectives, scope, and methodology for that work can be found in the issued reports. We updated certain information in this statement with the most recent available data from CBO and other sources. Our work was performed in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives.

The Federal Government's Unsustainable Long-Term Fiscal Path

Federal Debt Is Rising to Historic Levels

Even before the pandemic, the federal government was on an unsustainable long-term fiscal path caused by an imbalance between revenue and spending that is built into the structure of current law. Both spending and revenue have increased in recent years; however, growth in spending has outpaced modest revenue growth, deepening the federal

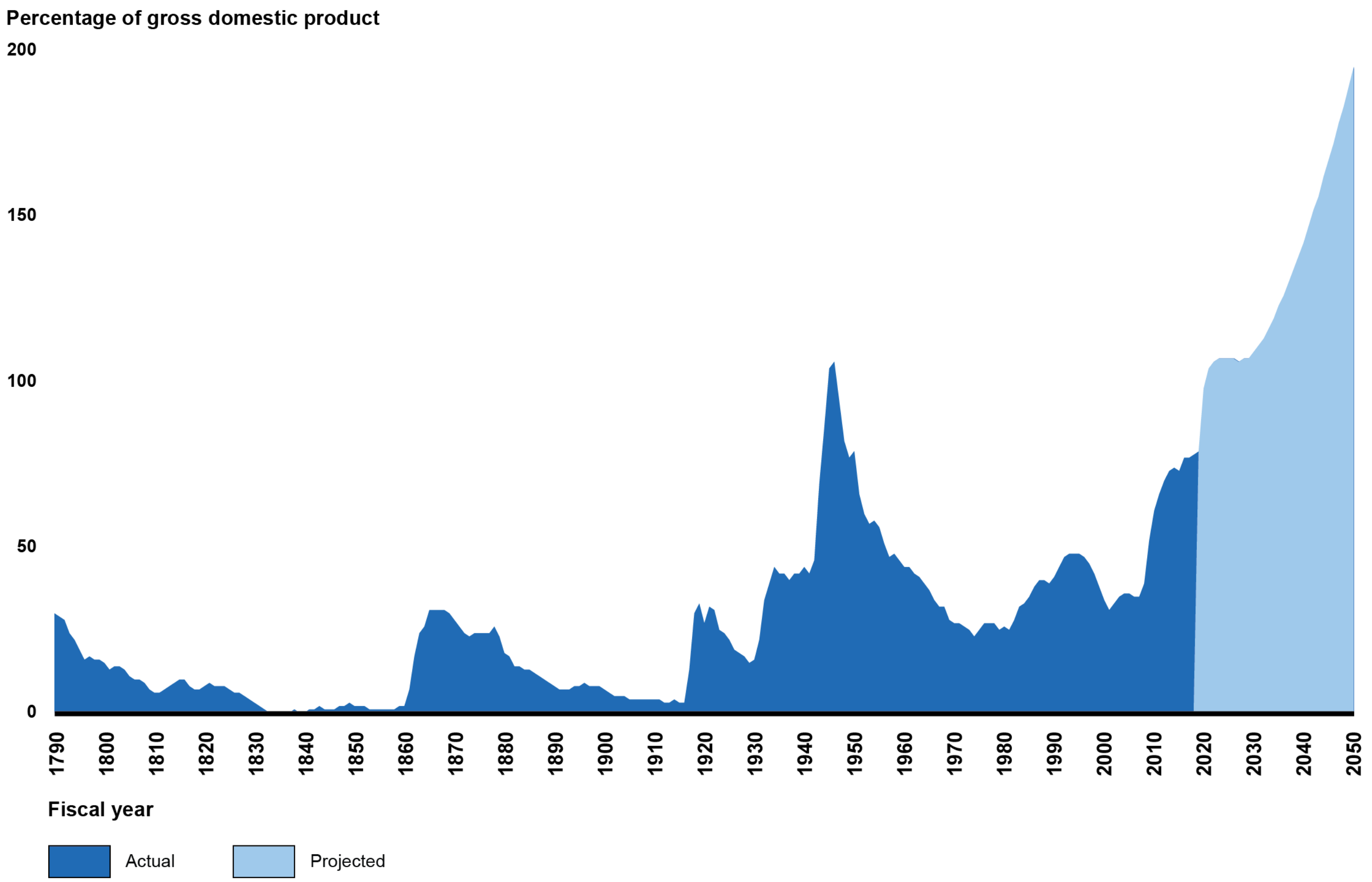
[1]See GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets,* GAO-20-561 (Washington, D.C.: Sept. 23, 2020) and *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future,* GAO-20-403SP (Washington, D.C.: Mar. 12, 2020). We plan to issue our next annual report on the nation's fiscal health in January 2021.

[2]GAO, *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).

government's fiscal imbalance. CBO projects that the annual deficit will exceed $1 trillion in each of the next 10 years.

This imbalance has contributed to growing federal debt. By the end of fiscal year 2019, federal debt held by the public had climbed to 79 percent of GDP. In September 2020, CBO estimated that it will continue to grow in the coming years, reaching 107 percent of GDP in 2023, its highest point in history (see fig. 1). CBO projects that debt held by the public will reach 195 percent of GDP in 2050. That the debt is growing faster than GDP means that the federal government is on an unsustainable fiscal path.

Figure 1: Federal Debt Held by the Public



Source: GAO analysis of Congressional Budget Office data. | GAO-21-161T

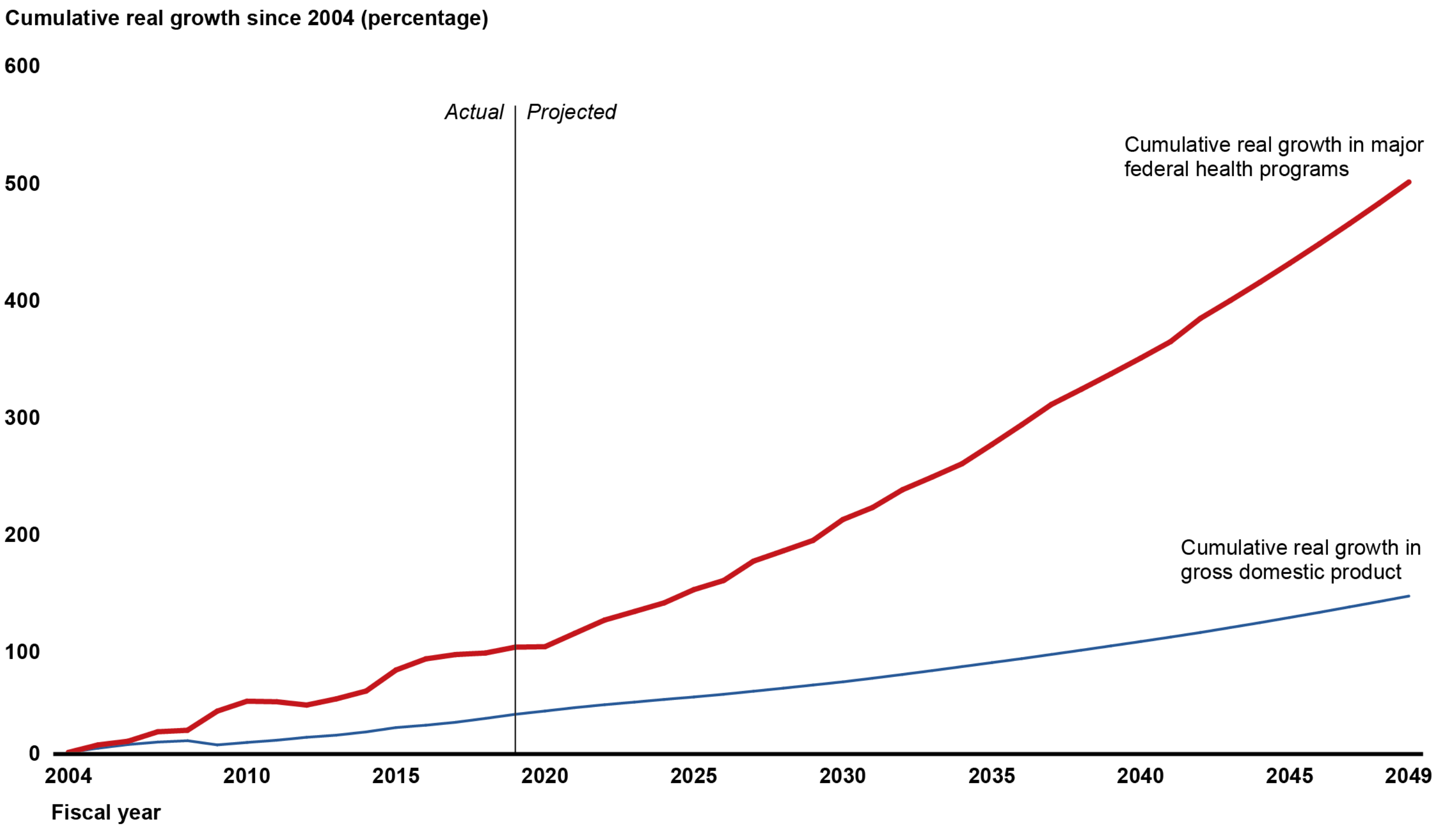
Health Care Spending Is A Key Driver of the Long-Term Outlook

Federal spending on major health care programs and Social Security each exceeded $1 trillion in fiscal year 2019. Together, they accounted for more than half of total noninterest spending. Spending on these programs is expected to grow over the coming decade.

Over the long term, federal spending on health care is a key driver of growth in spending on federal programs. In March 2020, even before the fiscal and economic effects of COVID-19, we projected that federal spending on major health care programs would continue to grow faster than the economy. This spending has exceeded the growth of GDP historically and is expected to continue to do so (see fig. 2).[3]

[3]CBO's September 2020 long-term projections of real GDP growth, which reflect the effects of COVID-19, are comparable to its pre-pandemic long-term projections. In September 2020, CBO slightly lowered its projections of long-term spending for major health care programs.

Figure 2: Federal Spending on Major Health Care Programs Grows Faster than GDP



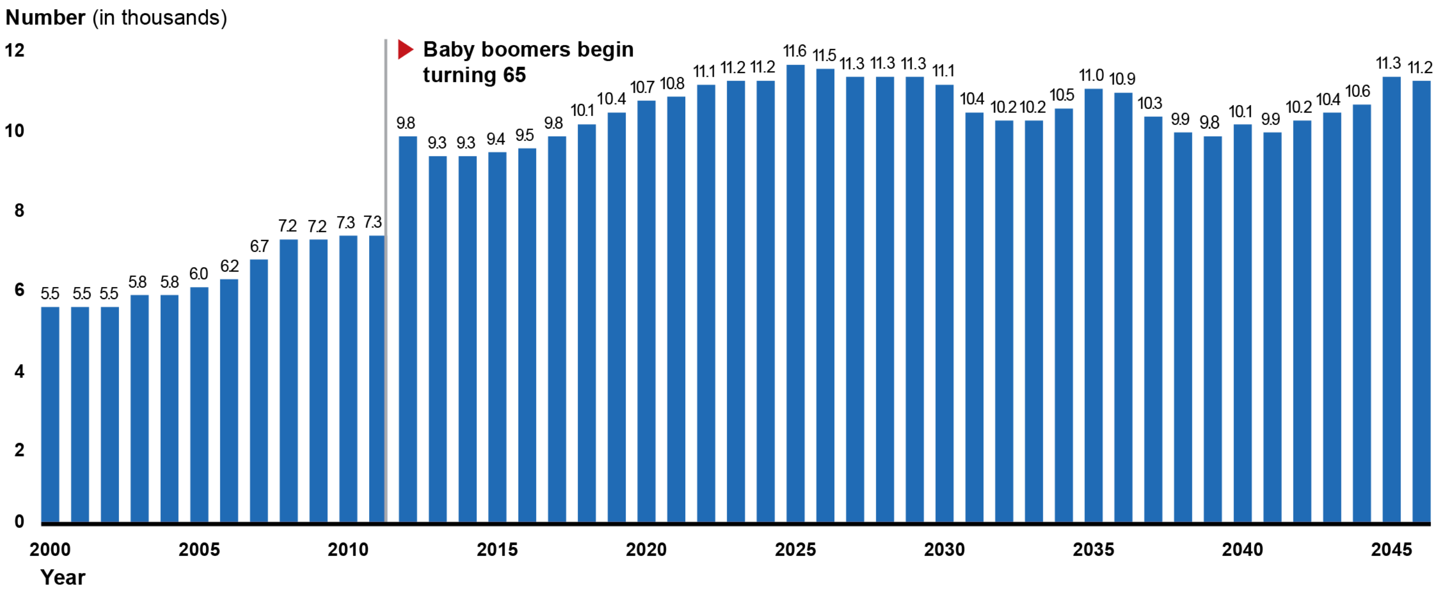
Source: GAO analysis of Congressional Budget Office and Bureau of Economic Analysis data. | GAO-21-161T

Note: This figure does not reflect the effects of COVID-19. It compares projections of real growth in spending on health care programs to real growth in GDP over 30 years. Major health care programs consist of Medicare, Medicaid, the Children's Health Insurance Program, and federal subsidies for health insurance purchased through the marketplace established by the Patient Protection and Affordable Care Act and related spending. The Congressional Budget Office's September 2020 long-term projections of real GDP growth, which take the pandemic into account, are about the same as its 2019 long-term projections. Cumulative growth in both GDP and federal spending on major health care programs has been adjusted for inflation.

Growth in federal spending on health care is driven by increasing enrollment, particularly in Medicare, stemming primarily from the aging population, and by the increase in health care spending per beneficiary.

- **Aging population**. In its 2020 long-term budget outlook report, CBO projected that by 2050, 22 percent of the population will be age 65 or older, compared to 16 percent in 2019. This demographic trend is driven largely by lower fertility rates and increases in life expectancy. This trend has been accelerated by the relatively large baby boom generation, which began turning 65 in 2011 (see fig. 3). Medicare enrollment is expected to increase over the next decade as the number of people older than 65 increases.

Figure 3: Daily Average Number of People Turning 65



Source: GAO analysis of U.S. Census Bureau information. | GAO-21-161T

- **Per beneficiary spending**. The amount of money spent on health care per person historically has risen faster than per capita economic output and is projected to do so in the future. In its 2020 long-term budget outlook report, CBO projected that the growth in health care spending per person will account for about two-thirds of the increase in spending for the major health care programs as a share of GDP between 2019 and 2050. During the past several years, health care spending per person grew more slowly than it has historically, but CBO and the Medicare Trustees both project that spending per enrollee in federal health care programs will grow more rapidly over the coming decade. Various factors can affect per beneficiary spending, including the emergence of new medical procedures and treatments.

Net Interest Spending Is Growing over the Long Term

Net Interest

Net interest primarily consists of interest costs on the federal government's debt held by the public. The amount of net interest spending is a function of the size of the debt to be financed and the level of interest rates. Spending on net interest means less room in the budget for federal programs to support national goals and priorities or for tax cuts.

Source: GAO analysis. | GAO-21-161T

Growth in spending on federal programs contributes to long-term growth in federal outlays both directly and indirectly, as spending financed by debt leads to increased payments of interest. Spending on net interest totaled $376 billion—or 8.4 percent of total federal spending—in fiscal year 2019. As net interest grows with the federal government's mounting debt, it is projected to exceed several types of spending, including Medicare, Social Security, and total discretionary spending over the long term.

CBO estimated that spending on net interest will fall to $338 billion in fiscal year 2020, primarily due to historically low interest rates. CBO projects that average interest rates on debt held by the public will be 2.0 percent in 2020, falling to 1.2 percent in the middle of the decade and subsequently increasing to 2.1 percent in 2030.

However, CBO anticipates that interest rates will rise over the long term. For example, CBO projects interest rates on 10-year Treasury notes will rise from an average of 0.7 percent in mid-2020 to 3.2 percent in 2030 and 4.8 percent in 2050. For any given level of debt, a change in interest rates changes interest costs. Interest rates also have a compounding effect on the debt when the federal government borrows to make interest payments.

Treasury Securities

The Department of the Treasury (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. Treasury refinances maturing debt by issuing new debt in its place at prevailing interest rates.

Source: GAO analysis. | GAO-21-161T

Future interest costs will also depend, in part, on the outstanding mix of Treasury securities the public holds. At the end of fiscal year 2019, 61 percent of the outstanding amount of publicly held marketable Treasury securities (about $9.9 trillion) was scheduled to mature in the next 4 years.[4] If interest rates are higher when securities mature than when they were issued, and Treasury refinances these securities at the higher interest rates, the higher interest costs will add to the growing federal debt. As of March 2020, international investors held 37.5 percent of Treasury securities.

Since the outbreak of COVID-19, the major credit rating agencies have maintained their rating of U.S. debt at AAA or, in the case of Standard &

[4]Marketable 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).

Poor's, AA+.[5] The agencies note the continued strength and resilience of the U.S. economy and institutions. However, in July 2020, the credit rating agency Fitch revised the U.S. outlook from stable to negative, citing the ongoing deterioration in the outlook for federal debt. The absence of a credible plan to address it, according to Fitch, may weaken institutions and has already started to erode the traditional credit strengths of the Treasury market.[6]

Although Moody's U.S. outlook remains stable, in June 2020 the rating agency noted that despite low interest rates, over the longer term, it expects U.S. debt affordability to deteriorate, driven mainly by lower government revenues, higher average levels of unemployment, and higher debt accumulation.[7]

COVID-19 Has Complicated the Fiscal Outlook

In response to the unprecedented global crisis caused by COVID-19, the federal government has taken actions that have helped direct much-needed assistance to support many aspects of public life, including local public health systems and private-sector businesses. Specifically, four relief laws were enacted as of September 2020 that appropriated $2.6 trillion across the government to fund response and recovery efforts, as well as to mitigate the public health, economic, and security effects of COVID-19.[8]

In addition, COVID-19 prompted serious economic repercussions, which has caused tax revenue to fall. In July 2020, CBO estimated that real (inflation-adjusted) GDP will contract by 3.8 percent in fiscal year 2020. CBO also expects revenues to be sharply lower in 2020 than in 2019. In

[5]In August 2011, Standard & Poor's lowered its long-term sovereign credit rating on the United States from AAA to AA+, citing the United States' rising public debt burden and greater policymaking uncertainty.

[6]See Fitch Ratings, *Fitch Revises United States' Outlook to Negative; Affirms at 'AAA'*, (New York: July 31, 2020). A stable outlook indicates a low likelihood of a rating change over the medium term. A negative, positive, or developing outlook indicates a higher likelihood of a rating change over the medium term.

[7]See Moody's Investors Service, *Rating Action: Moody's affirms United States' AAA rating; maintains stable outlook*, (New York: June 19, 2020).

[8]The four relief laws are the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020, Pub. L. No. 116-123, 134 Stat. 146 (2020); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020); Coronavirus Aid, Relief, and Economic Security Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); and Paycheck Protection Program and Health Care Enhancement Act, Pub. L. No. 116-139, 134 Stat. 620 (2020).

September 2020, CBO estimated that revenues for fiscal year 2020 will be about $3.3 trillion, or $167 billion less than in fiscal year 2019.

As we reported in September 2020, state and local governments also face deteriorated fiscal conditions due to COVID-19.[9] Similar to the federal government, they have experienced increased expenditures and decreased revenues stemming from the pandemic and the resulting economic effects. Increased unemployment and reduced consumption and economic activity contributed to reduced state and local revenues. In addition to updating their revenue forecasts, state and local governments have taken actions to respond to these fiscal challenges, including freezing hiring, furloughing staff, restricting contracts and new spending, and freezing discretionary spending.

In addition, as the number of continuing unemployment claims remains historically high, more states are facing increased financial strain, and some have sought loans from the federal government to pay unemployment insurance (UI) benefits.[10] As of September 29, 2020, 6 months since the March 2020 spike in UI claims, 18 states and the U.S. Virgin Islands have taken out federal loans totaling about $33.7 billion to pay UI benefits.

A number of states also tapped their reserve funds to balance budgets for fiscal year 2020. The four COVID-19 relief laws provided an estimated $335 billion in funds to agencies for assisting U.S. states, localities, territories, and tribes, including the Coronavirus Relief Fund, which provided $150 billion in direct assistance to help offset costs of their response to the COVID-19 pandemic.

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[9]GAO, *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions,* GAO-20-701 (Washington, D.C.: Sept. 21, 2020). For more information on the state and local fiscal outlook, see GAO, *Intergovernmental Issues: Key Trends and Issues Regarding State and Local Sector Finances,* GAO-20-437 (Washington, D.C.: Mar. 23, 2020) and *State and Local Governments' Fiscal Outlook: 2019 Update,* GAO-20-269SP (Washington, D.C.: Dec. 19, 2019).

[10]While the CARES Act UI programs are federally funded, regular UI is primarily funded through state and federal taxes on employers. When a state exhausts the funds available for regular UI benefits, it may borrow from the federal government. According to Department of Labor data, even before the pandemic, many states were not taking in enough UI tax revenue to satisfy the solvency standard specified in the department's regulations providing for interest-free loans to states. See 20 C.F.R. § 606.32 (2019).

Fiscal Sustainability Will Require a Long-Term Plan

Since 2017, we have stated that the federal government needs a long-term plan to help put it on a sustainable fiscal path. Once the current crisis abates, having a long-term plan with clear goals and objectives agreed to by Congress and the administration, as well as strategies for achieving those goals and objectives, would provide transparency over the fiscal impacts of budget decisions for each year as well as over the long term.

Fiscal Rules Could Help Form a Long-Term Plan

According to the International Monetary Fund (IMF), a fiscal rule is a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates, such as expenditures and revenue. Fiscal targets are the interim benchmarks that may be established within the parameters set by the fiscal rules. There are various types of fiscal rules. For example, a debt rule sets an explicit limit or target for debt held by the public, typically as a share of GDP. A budget balance rule constrains deficit levels or targets a budget surplus.

In September 2020, we suggested that Congress consider including fiscal rules and targets, such as a debt-to-GDP target, as part of a long-term fiscal plan.[11] According to the IMF and the Organization for Economic Co-Operation and Development (OECD), fiscal rules have the potential to contribute to fiscal sustainability.

The IMF has reported that well-designed fiscal rules have been effective in containing excessive deficits in other countries. In addition, the OECD has reported that debt-to-GDP targets can serve as a fiscal policy anchor for a country's government to help ensure the sustainability of fiscal policy and maintain sufficient policy room for the government to cope with adverse shocks.

The two federal fiscal rules currently in effect—the Statutory Pay-As-You-Go Act of 2010 (Statutory PAYGO Act) and the Budget Control Act of 2011 (BCA)—have not corrected the imbalance between spending and revenues that has led to rising debt.[12] From fiscal year 2012 through fiscal year 2019, when both laws were in effect, federal debt held by the public

[11] GAO-20-561.

[12] Pub. L. No. 111-139, 124 Stat. 8 (2010) and Pub. L. No. 112-25, 125 Stat. 240 (2011). The Statutory PAYGO Act has been in effect since 2010 and does not have an expiration date. The BCA is in effect for fiscal years 2012-2021 for discretionary spending and fiscal years 2012-2030 for direct (i.e., mandatory) spending.

continued to grow (from 70 percent to 79 percent of GDP), even though the economy was expanding during this period.[13]

These fiscal rules have not put the nation on a sustainable fiscal path because they were not designed to encompass the entire range of factors that contribute to the federal government's fiscal imbalance. Specifically:

- The Statutory PAYGO Act requires that new direct (or mandatory) spending and revenue legislation cannot increase the deficit in any given year.[14] However, federal spending can increase as a result of programs established by previously-enacted laws, such as Medicare.
- The BCA set limits on annual discretionary spending, which constituted only about 30 percent of federal outlays in fiscal year 2019.[15] In addition, the BCA addresses only the spending side of the federal government's fiscal imbalance and does not address revenues.

Likewise, Congress has passed and the president has signed numerous laws amending the BCA that have limited its effectiveness. Most of these laws increased the BCA's discretionary spending limits, which in turn increased annual deficits.

The federal government's experience with fiscal rules illustrates that no process can force choices that policymakers are unwilling to make. In other words, Congress cannot be forced to pass and the president cannot be forced to sign into law decisions that may lead the nation towards fiscal sustainability.

To help formulate such a plan, we identified seven key considerations based on a literature review and interviews with experts on fiscal policy

[13]Other factors being equal, increasing GDP lowers the debt-to-GDP ratio while decreasing GDP raises this ratio.

[14]The Senate and the House of Representatives also have PAYGO rules, which generally provide that legislation affecting direct spending or revenues may not be considered if it would increase the deficit over a given period. These rules are internal rules that are not enforceable by the Statutory PAYGO Act.

[15]Implementation of the BCA also resulted in automatic, across-the-board spending reductions—known as sequestration—because Congress and the president did not reach agreement on further deficit reduction as required by the BCA. However, in fiscal year 2019 these reductions totaled less than $20 billion, or about 2 percent of the $984 billion deficit for that year.

and fiscal rules. These key considerations are intended to help Congress if it were to adopt new fiscal rules and targets (see table 1).[16]

Table 1: Key Considerations for the Design, Implementation, and Enforcement of Fiscal Rules and Targets

Key consideration	Supporting explanation
Alignment with Fiscal Policy Goals and Objectives	Setting clear goals and objectives can anchor a country's fiscal policy. Fiscal rules and targets can help ensure that spending and revenue decisions align with agreed-upon goals and objectives.
Design Tradeoffs and Features	The weight given to tradeoffs among simplicity, flexibility, and enforceability depends on the goals a country is trying to achieve with a fiscal rule. In addition, there are tradeoffs between the types and combinations of rules, as well as the timeframes over which the rules apply.
Legal Framework and Permanence	The degree to which fiscal rules and targets are binding, such as being supported through a country's constitution or non-binding political agreements, can impact their permanence, as well as the extent to which ongoing political commitment is needed to uphold them.
Integration with Budgetary Processes	Integrating fiscal rules and targets into budget discussions can contribute to their ongoing use and provide for a built-in enforcement mechanism. The budget process can include reviews of fiscal rules and targets.
Flexibility to Address Emerging Issues	Fiscal rules and targets with limited, well-defined exemptions, clear escape clauses for events such as national emergencies, and adjustments for the economic cycle can help a country address future crises.
Clear Roles for Supporting Institutions	Institutions supporting fiscal rules and targets need clear roles and responsibilities for supporting their implementation and measuring their effectiveness. Independently analyzed data and assessments can help institutions monitor compliance with fiscal rules and targets.

[16]For more information on these key considerations, including examples from Australia, Germany, and the Netherlands, See GAO-20-561.

Key consideration	Supporting explanation
Transparency and Communication	Having clear, transparent fiscal rules and targets that a government communicates to the public and that the public understands can contribute to a culture of fiscal transparency and promote fiscal sustainability for the country.

Source: GAO analysis of literature review and interviews. | GAO-21-161T

Alternative Approaches to the Debt Limit Could Improve Debt Management

The Federal Debt Limit

The federal debt limit is a legal limit on the total amount of federal debt that can be outstanding at one time.

Source: GAO analysis of applicable laws. | GAO-21-161T

We also have previously suggested that Congress consider alternative approaches to the debt limit as part of a long-term fiscal plan.[17] Such action would avoid serious disruptions to the Treasury market and increases in borrowing costs, as well as allow Congress to better manage the federal government's level of debt. As currently structured, the federal debt limit only restricts Treasury's authority to borrow and finance the decisions already passed by Congress and signed into law by the president.

The debt limit is not a fiscal rule because it does not restrict Congress's ability to pass spending and revenue legislation that affects the level of debt.[18] Without legislation to suspend or raise the debt limit, Treasury cannot continue issuing debt to finance the decisions already passed by Congress and signed into law by the president.

We have reported on the negative impacts of uncertainty around the debt limit that includes (1) increased Treasury borrowing costs, (2) decreased demand for Treasury securities, and (3) constrained Treasury cash management.[19] Delays in raising the debt limit could lead to a default on legal debt obligations, which would have devastating effects on U.S. and

[17]See GAO, *The Nation's Fiscal Health: Actions Needed to Achieve Long-Term Fiscal Sustainability,* GAO-19-611T (Washington, D.C.: June 26, 2019).

[18]The debt limit is codified at 31 U.S.C. § 3101(b), as amended, and applies to federal debt issued pursuant to authority under 31 U.S.C. chapter 31. However, the debt limit was suspended and is scheduled for reinstatement on August 1, 2021, with the debt limit increased to the amount of obligations outstanding on that date. Bipartisan Budget Act of 2019, Pub. L. No. 116-37, § 301, 133 Stat. 1049 (2019), *codified at* 31 U.S.C. § 3101 note.

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

global economies and the public. We have stated numerous times that the full faith and credit of the United States must be preserved.

In prior work, we identified three options that would enable Congress to delegate its borrowing authority, avoid impasses on the debt limit, and minimize disruptions to the Treasury securities market:

1. Link action on the debt limit to the budget resolution.
2. Provide the administration with the authority to propose a change in the debt limit that would take effect absent enactment of a joint resolution of disapproval within a specified time frame.
3. Delegate broad authority to the administration to borrow as necessary to fund enacted laws.[20]

Each of these options has strengths and weaknesses but would maintain Congressional control and oversight of federal borrowing and better align decisions about the level of debt with decisions on spending and revenue.

Congress is considering legislation that, if enacted, could help avoid impasses on the debt limit and provide a fiscal target to help manage the debt. For example, a Senate Bill would automatically adjust the debt limit to conform to levels established in the budget resolution and would require budget resolutions every 2 years rather than annually. It would also specify target ratios for debt as a share of GDP and track legislation against that target.[21]

Impending Fiscal Pressures Will Require Action

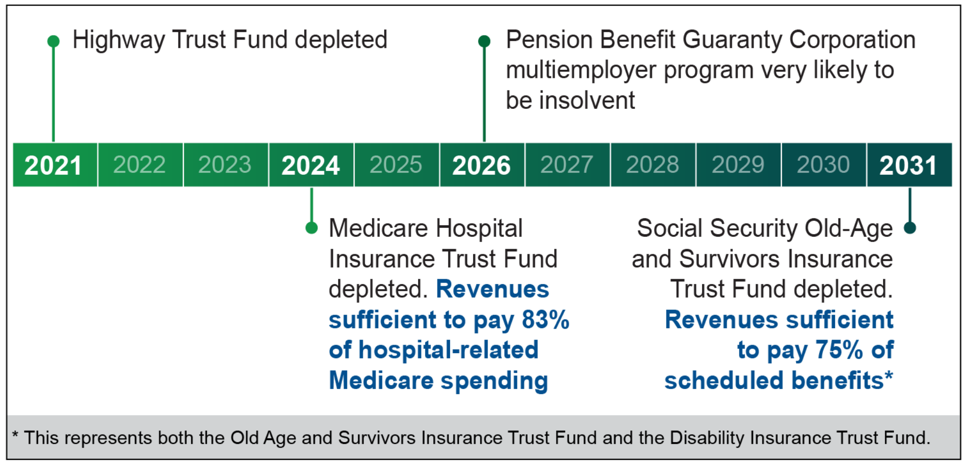
Action is also needed to address impending financial challenges for major programs and fiscal exposures that are both straining the federal budget and contributing to the growing debt (see fig. 4).[22]

[20]More detail on these ideas and a discussion of the advantages and challenges to each can be found in GAO-15-476.

[21]Bipartisan Congressional Budget Reform Act, S. 2765, title II, § 202(e)(5), 116th Cong. (2019). As of October 2020, the bill has been reported out of committee but has not passed the Senate.

[22]In April 2020, the Trustees for Social Security and Medicare published projections for when the Social Security Old-Age and Survivors Insurance Trust Fund and the Medicare Hospital Insurance Trust Fund will be depleted. These projections do not reflect the effects of COVID-19 and differ from CBO's projections, which were published in September 2020 and reflect the effects of the pandemic.

Figure 4: Key Dates for Major Programs



Sources: Pension Benefit Guaranty Corporation and Congressional Budget Office. | GAO-21-161T

Notes: Years above may reflect either fiscal or calendar years. The Congressional Budget Office projections for the trust funds reflect the effects of COVID-19. The Pension Benefit Guaranty Corporation projections do not reflect the effects of COVID-19.

The federal government faces certain additional fiscal exposures that present risks to its future fiscal condition. Fiscal exposures are responsibilities, programs, and activities that may legally commit the federal government to future spending or create expectations for future spending based on current policy, past practices, or other factors. It is important to have budgetary flexibility to respond to these and other unforeseen events, like COVID-19.

These crises often cannot be predicted and are difficult to budget for. A more complete understanding of fiscal risks can help policymakers anticipate changes in future spending and can enhance oversight of federal resources.

Pension Benefit Guaranty Corporation

The Pension Benefit Guaranty Corporation (PBGC) insures benefits, up to statutory limits, in private-sector defined benefit pension plans. PBGC's single-employer program covers defined benefit pension plans that are generally sponsored by individual employers, while the multiemployer program covers defined benefit pension plans created through collective bargaining agreements generally between labor unions and two or more employers.

Source: GAO analysis. | GAO-21-161T

The following are examples of fiscal exposures or risks:[23]

- **The Pension Benefit Guaranty Corporation**. The Pension Benefit Guaranty Corporation (PBGC) faces an uncertain financial future. PBGC reported that its liabilities exceeded its assets by more than $56 billion as of the end of fiscal year 2019.[24] The multiemployer program reported a deficit of about $65 billion for that year. PBGC projects that without structural legislative reforms, there is a high likelihood the multiemployer program will become insolvent during fiscal year 2026 and that insolvency is a near certainty by the end of fiscal year 2027.[25]

  In addition, PBGC estimated that its exposure to potential additional future losses for underfunded plans was $155 billion for the single-employer program and $11 billion for the multiemployer program. Although the single-employer program is currently in surplus—about $8.7 billion for fiscal year 2019—its financial position is highly sensitive to prevailing economic conditions, and past experience with large claims shows that its condition can change quickly and precipitously.

- **Natural Disasters and Climate Change**. The rising number of natural disasters and increasing state, local, and tribal reliance on federal disaster assistance also pose a risk to the federal fiscal outlook. Since 2005, federal funding for disaster assistance has totaled at least $460 billion, which consists of obligations for disaster assistance from 2005 through 2014 totaling about $278 billion[26] and

[23]For additional examples of fiscal risks, see GAO-20-403SP.

[24]Pension Benefit Guaranty Corporation, *Annual Report 2019* (Washington, D.C.: Nov. 15, 2019).

[25]PBGC's projection does not take into account the effects of the COVID-19 pandemic. For more information on PBGC insurance programs, see Pension Benefit Guaranty Corporation, *FY 2019 PBGC Projections Report* (Washington, D.C.: Sept. 14, 2020), and GAO-19-157SP, 267.

[26]See GAO, *Federal Disaster Assistance: Federal Departments and Agencies Obligated at Least $277.6 Billion during Fiscal Years 2005 through 2014*, GAO-16-797 (Washington, D.C.: Sept. 22, 2016).

Federal Disaster Assistance

Federal disaster assistance can come from federal responsibilities, programs, and activities, such as the National Flood Insurance Program, that may legally commit or create the expectation for future federal spending. Federal agencies can become involved in responding to a disaster when effective response and recovery are beyond the capabilities of the affected state and local governments.

The Disaster Relief Fund is the primary source of federal disaster assistance for state, local, territorial, and tribal governments when a major disaster or emergency is declared.

Source: GAO analysis. | GAO-21-161T

select appropriations for disaster assistance from 2015 through 2019 totaling $183 billion.[27] In 2019 alone, 14 weather and climate disaster events had losses exceeding $1 billion each, with total costs of at least $45 billion, according to the National Oceanic and Atmospheric Administration (NOAA). As of July 8, 2020—the most recent date for which data are available—NOAA reported that the U.S. experienced 10 weather and climate disasters that incurred losses exceeding $1 billion each.

Although the Disaster Relief Fund receives funding through the annual appropriations process, the federal government does not budget fully for the costs of disaster assistance. According to Congressional Research Service data, since 1964 more than 82 percent of overall net appropriations for disaster relief has been through supplemental appropriations.[28] These appropriations, as well as most annual appropriations to the disaster relief fund, generally do not count toward existing discretionary budget limits.[29]

Disaster costs are projected to increase as extreme weather events become more frequent and intense because of climate change.[30] Limiting the federal government's fiscal exposures to climate change has been on our High-Risk List since 2013, in part because of concerns about the increasing costs of disaster response and recovery efforts.[31]

[27]This total includes, for fiscal years 2015 through 2019, $143 billion in supplemental appropriations to federal agencies for disaster assistance and approximately $40 billion in annual appropriations to the Disaster Relief Fund. It does not include other annual appropriations to federal agencies for disaster assistance.

[28]Congressional Research Service, The Disaster Relief Fund: Overview and Issues, R45484 (Washington, D.C.: Nov. 22, 2019).

[29]The Budget Control Act of 2011 allows spending limits to be adjusted upward to accommodate appropriations for disaster relief. Pub. L. No. 112-25, tit. I, § 101, 125 Stat. at 244-45.

[30]See USGCRP, 2018: *Impacts, Risks, and Adaptation in the United States: Fourth National Climate Assessment*, Volume II [Reidmiller, D.R., C.W. Avery, D.R. Easterling, K.E. Kunkel, K.L.M. Lewis, T.K. Maycock, and B.C. Stewart (eds.)]. U.S. Global Change Research Program, Washington, D.C, USA, 1515 pp. DOI: 10.7930/NCA4.2018 and National Research Council 2020, *Climate Change: Evidence and Causes: Update 2020*. Washington, DC: The National Academies Press. https://doi.org/10.17226/25733.

[31]GAO-19-157SP, 110.

Executive Agencies Have Opportunities to Contribute Toward Fiscal Health

Changes in spending and revenue to ensure long-term fiscal sustainability require legislative actions to alter fiscal policies, but in our prior work we have also identified numerous actions for executive agencies to contribute toward a sustainable fiscal 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.[32]

Improper Payments

Improper payments are payments that should not have been made or that were made in an incorrect amount.

Source: GAO analysis. | GAO-21-161T

- **Reduce Improper Payments**. Since fiscal year 2003, cumulative improper payment estimates have totaled almost $1.7 trillion.[33] For fiscal year 2019, agencies reported total improper payment estimates of about $175 billion. To address this issue, agencies should first identify the root causes of improper payments and then implement internal controls aimed at both prevention and detection. However, the government's ability to understand the scope of the issue is hindered by incomplete, unreliable, or understated estimates; risk assessments that may not accurately assess the risk of improper payment; and noncompliance with statutory improper payments criteria.[34]

Tax Gap

The tax gap is the difference between tax amounts that taxpayers owe and what they actually pay voluntarily and on time. It arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file a required tax return altogether or on time (nonfiling).

Source: GAO analysis. | GAO-21-161T

- **Address the Persistent Tax Gap**. The net tax gap—after late payments and Internal Revenue Service enforcement—amounted to $381 billion per year for tax years 2011-2013, according to the Internal Revenue Service's most recent estimates.[35] This persistent issue has been on our High-Risk List since its inception in 1990.[36] Even marginal reductions in the gap between taxes owed and those paid would increase tax collections by billions of dollars annually.

[32] GAO-20-403SP.

[33] Certain agencies were required by statute to begin reporting estimated improper payments for certain programs and activities beginning in 2003.

[34] See 31 U.S.C. §§ 3351-3353.

[35] IRS released its most recent tax gap estimate in September 2019 for tax years 2011 to 2013.

[36] For more information on addressing the tax gap, see GAO-19-157SP, 235.

Tax Expenditures

Tax 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.

Source: GAO analysis. | GAO-21-161T

Duplication, Overlap, and Fragmentation

Since 2011, we have reported on federal programs, agencies, offices, and initiatives that have duplicative goals or activities as well as opportunities to achieve greater efficiency and effectiveness that result in cost savings or enhanced revenue collection. In our ten annual reports from 2011 through 2020, we presented more than 1,000 actions for executive branch agencies or Congress to reduce, eliminate, or better manage fragmentation, overlap, or duplication; achieve cost savings; or enhance revenue.

Source: GAO analysis. | GAO-21-161T

- **Increase Scrutiny of Tax Expenditures**. In fiscal year 2019, tax expenditures reduced income tax revenues by approximately $1.32 trillion based on our calculation summing Treasury estimates for each tax expenditure.[37] Although they are routinely used as a policy tool, tax expenditures are not regularly reviewed and their outcomes are not measured as closely as spending programs' outcomes. Since 1994, we have recommended greater scrutiny of tax expenditures.[38]
- **Continue to Address Duplication, Overlap, and Fragmentation**. Federal agencies also have the potential to achieve billions in financial benefits by continuing to address duplication, overlap, and fragmentation. Actions taken by the executive branch and Congress on these issues have resulted in roughly $429 billion financial benefits since fiscal year 2010.[39] As of March 2020, about 57 percent of the actions we have identified to address duplication, overlap, and fragmentation were fully addressed, about 22 percent were partially addressed, and about 12 percent were not addressed.[40]

In summary, responding to COVID-19 and the resulting severe economic downturn must continue to be the national priorities. However, a broad plan to address the long-term fiscal outlook needs to be swiftly implemented once public health goals have been attained and the

[37]The sum of the specific tax expenditure estimates is useful for gauging the general magnitude of reduced revenue through provisions of the tax code, but aggregate tax expenditure estimates must be interpreted carefully. Summing revenue loss estimates does not take into account possible interactions between individual provisions or potential behavioral responses to changes in these provisions on the part of taxpayers. Additionally, Treasury's tax expenditure estimates include the effect of certain tax credits on receipts only and not the effect of the credits on outlays, which Treasury reports separately, but do not take into account interactions between individual provisions.

[38]For more information on our work on tax expenditures, see GAO, Key Issues: Tax Expenditures, accessed on October 1, 2020, https://www.gao.gov/key_issues/tax_expenditures/issue_summary.

[39]The $429 billion includes about $393 billion from 2010 through 2019 and $36 billion projected to accrue in 2020 or later. In calculating these totals, we relied on individual estimates from a variety of sources, which considered different time periods and utilized different data sources, assumptions, and methodologies. These totals represent a rough estimate of financial benefits and have been rounded down to the nearest $1 billion.

[40]Nine percent of the actions have been consolidated or other—replaced or subsumed by new actions based on additional audit work or other relevant information—or closed as not addressed because the action is no longer relevant due to changing circumstances. For more information, see GAO, *2020 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Billions in Financial Benefits*, GAO-20-440SP (Washington, D.C.: May 19, 2020) and Duplication & Cost Savings: Action Tracker, updated on May 19, 2020, https://www.gao.gov/duplication/overview#t=1.

economy has substantially recovered. It is essential and prudent to move toward a sustainable fiscal path.

To do this, policymakers will need to consider policy changes to the entire range of federal activities (including tax expenditures) and spending (entitlement programs, other mandatory spending, and discretionary spending). As we and CBO have both reported, the longer we postpone actions to address the federal debt, the more drastic changes to spending and revenues will need to be.

Chairman Cassidy, Ranking Member Hassan, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions.

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