Addressing the Long-Term Fiscal Challenge

In recent years, the U.S. Government Accountability Office (GAO) has been raising awareness of security, economic, demographic, and other evolving trends that have a direct bearing on America’s future. Our efforts are intended to provide policy makers with foresight into tomorrow’s challenges and help them address problems before they become crises. Key among them is our government’s long-term fiscal imbalance, which, over time, has the potential to erode our standard of living and reduce our flexibility to respond to emerging issues.

The United States faced long-term fiscal challenges even before the 2007–09 global financial crisis and the federal government’s actions to stabilize financial markets and promote economic recovery led to a sharp increase in debt held by the public. Long-term fiscal simulations by the GAO, the Congressional Budget Office, and others all show that absent policy changes, publicly held debt will grow faster than the economy—an unsustainable path. Rising debt is driven by a fundamental imbalance between revenue and spending, which, on the spending side, is driven by the aging of the population and rising health care costs.

Addressing the long-term fiscal challenge requires difficult trade-offs and policy choices. All types of federal spending—both discretionary and mandatory—and tax expenditures will need to be reexamined. In the future, the federal government will need to make tough choices in setting priorities and linking resources to results. At the same time, action on several fronts can help reduce both the magnitude and the pain of those choices. These measures include the following:

- **Addressing areas on our High Risk List.** The GAO began this program in 1990 to focus attention on government operations susceptible to risk either because of their need for transformation or their vulnerability to fraud, waste, abuse, and mismanagement. In fiscal year 2012, we documented more than $28 billion in financial benefits resulting from our work on high-risk areas. However, tens of billions of dollars remain at risk, underscoring the need for strengthened accountability and internal controls along with fundamental changes in program design in some cases.

- **Eliminating fragmentation, overlap, and duplication.** Over the last three years, the GAO has issued a series of reports identifying 162 areas in which opportunities exist for executive branch agencies and Congress to reduce fragmentation, overlap, and duplication across federal programs or to achieve other cost savings and enhanced revenue collection. Within these 162 areas, the GAO suggested approximately 380 actions that executive branch agencies or Congress could take to address the identified issues. Collectively, the reports identify opportunities for greater efficiency and effectiveness within all 15 cabinet-level executive departments and at least 17 other federal entities. The executive branch and Congress have made some progress in addressing the identified issues, but additional work remains. Fully addressing the identified issues could save the government tens of billions of dollars annually.

- **Reducing improper payments.** In the 1990s, the GAO began to raise concerns that federal agencies could be making significant amounts of improper payments, defined as any payment that should not have been made or that was made for an incorrect amount. The GAO noted that some agencies were not conducting risk assessments for programs at risk of making significant improper payments. It also found that many agencies were using questionable methodologies to estimate such payments and that there was no reliable estimate of the magnitude of improper payments across government. The GAO’s efforts prompted three pieces of legislation in 11 years as well as Office of Management and Budget guidance. Agencies are now required to conduct
risk assessments, use reasonable estimation methodologies, and design appropriate preventive and detective controls to minimize the risk of improper payments. In fiscal year 2012, the government-wide estimate of improper payments totaled nearly $108 billion—a decrease of $8 billion from the prior-year estimate, although it is important to note that not all programs at risk are included in the estimate. The GAO continues to perform reviews and conduct forensic audits on the improper payment issue, focusing much of its work on the Medicare and Medicaid programs, which account for about 59 percent of the government-wide total of estimated improper payments.

- **Closing the tax gap.** The Internal Revenue Service (IRS) last estimated the net annual tax gap—the difference between taxes owed and taxes ultimately paid (including late payments and IRS collections)—at $385 billion for 2006. Finding strategies to reduce the tax gap can help with the long-term sustainability challenge and may also increase taxpayers’ confidence that others are paying their fair share, perhaps improving voluntary compliance.

Clearly, difficult decisions and much hard work lie ahead to successfully address our long-term fiscal challenge. Maximizing government efficiency and effectiveness will be an important part of that process. The GAO is proud of its work in this area, and, going forward, we remain committed to providing lawmakers and agency officials with the information they will need to realize that goal.