Peter G. Peterson Foundation

Our America. Our Future.

May 6, 2010

America's Addiction to Debt

By: Hon. David M. Walker, President and CEO of the Peter G. Peterson Foundation
and Former Comptroller General of the United States (1998-2008)

Chairman Moore, Ranking Member Biggert and members of the sub-committee, thank you for the opportunity to testify today. My testimony is based on my many years of experience in the public, private and not-for profit sectors, including serving as the current President and CEO of the Peter G. Peterson Foundation, and as a former Comptroller General of the United States and head of the GAO from 1998-2008.

It is very important to state at the outset of this hearing that not all debt and leverage is bad. For example, individuals may take on debt to purchase a home, to finance their education or their children's education, or to make other investments designed to improve their future or their family's future. Businesses may take on debt in order to start operations, expand their businesses, conduct research or otherwise improve their future prospects. Country's may take on debt to make investments in areas like basic research, education innovation and critical infrastructure that can help to grow the economy, improve its competitive posture and enhance future prospects. Individuals, businesses and countries may also take on debt temporarily in order to deal with economic downturns and unexpected emergencies, including wars in the case of sovereign nations. However, individuals, businesses and countries must not become accustomed to taking on debt in order to finance their ongoing operating costs and current wants and at the expense of future needs.

Now let me turn to the U.S. Government, which is what I was asked to focus my testimony on today. It is clear that the United States is a great nation, possibly the greatest in the history of all mankind. At the same time, our country is resting on our past success and our current sole "Superpower" status while, at the same time, ignoring a range of leading indicators that clearly demonstrate that we are on an imprudent and unsustainable path in many respects. This includes such areas a public finance, savings rates, educational performance, health care costs and outcomes, and the state of our nation's critical infrastructure.

The truth is, our country's future standing and the standard of living for future generations of Americans is threatened by these and other key sustainability challenges. Given the subject of this hearing, I will focus my remarks today on America's structural deficits, growing debt burdens, increased reliance on foreign lenders and low savings rates. These are the issues that are most relevant to this series of sub-committee hearings.

During the first approximate 200 years of our republic's existence, the federal government did not experience significant and recurring deficits unless the country was at war, was experiencing a depression or recession, or faced some other major national emergency (See Exhibit I). However, within the past several decades, both America and too many Americans became addicted to spending, deficits and debt. This cultural challenge is real, and it has reached epidemic proportions in Washington, DC. As an example, total federal debt levels (in nominal terms) have more than doubled in less than 10 years (See Exhibit II), and they could double again within the next 10 years absent a dramatic course correction.

Today, the all too typical discussion in Washington is not whether we should seek to balance the budget and reduce our relative debt burdens, but what level of recurring deficits and debt burdens should be acceptable. Some argue that running deficits equal to the size of our nation's economic growth should be acceptable even when the country is at peace and does not face any major economic challenges or other current crises that might justify a temporary increase in federal spending. The problem with this deficit and debt philosophy is that when the economy is in recession, the country is at war, and/or a national crisis occurs or natural disaster strikes, deficits can soar to astronomical levels. For example, in fiscal 2009, the United States ran a $1.41 trillion federal deficit equal to about 9.9 percent of the nation's economy. Most of this deficit was inherited by President Obama and was due primarily to temporary reductions in revenues and increases in spending attributable to the recession, two undeclared and unfinanced wars, and the major housing/financial system crisis. While the deficit for fiscal 2010 is expected to decline somewhat, it is still expected to exceed $1.3 trillion.

Clearly trillion dollar plus deficits are a matter of growing public concern. It is, however, important to understand that our short-term deficits do not represent the real threat to our collective future. That real threat is represented by the large and growing structural deficits that we will face after the economy has recovered, after unemployment is lower, after the wars are over, and long after the recent crises have passed. These deficits and debt burdens are the ones that threaten our "Ship of State" at home and our standing around the world. They are driven largely by current entitlement programs, escalating health care costs, and a growing gap between projected federal spending levels and revenues. Absent dramatic and fundamental spending and tax reforms, our federal debt levels are expected to skyrocket in the future (See Exhibit III).

Our structural deficits represent a true national security challenge. After all, a nation's economy must be strong for it to be respected abroad and effective on the home front.

Federal spending levels have grown by almost 300 percent net of inflation over the past 40 years and the federal budget is now dominated by mandatory spending programs that grow on autopilot (See Exhibit IV). These mandatory spending programs serve to constrain our ability to invest and to help create a better future.

In addition to direct spending programs, the federal government foregoes about $1 trillion in revenues a year due to various tax deductions, exemptions, credits and other preferences. The top five tax preferences alone exceed total estimated federal spending on Medicare in this year (See Exhibit V). These and other tax preferences are also on auto-pilot and are not subject to periodic review and reauthorization.

Direct federal spending is expected to skyrocket based on existing federal programs and policies (See Exhibit VI). While reasonable people can and do differ on whether or not the recently enacted health care reform legislation will improve or worsen our federal deficit and debt outlook, it will clearly result in higher federal spending beyond the levels projected in Exhibit VI.

From a broader financial perspective, the federal government's total liabilities, commitments/contingencies and unfunded promises for Medicare and Social Security more than tripled between September 30, 2000 and September 30, 2009 (See Exhibit VII). Medicare alone was over $38 trillion in the hole as of September 30, 2009. This amount increases every year that we delay taking action to reduce health care costs and better target taxpayer subsidies under Medicare's voluntary Part B and Part D programs.

While many are rightfully concerned about the serious threat posed by rapidly increasing health care costs, they do not represent our fastest growing federal expense. Believe it or not, interest costs are expected to be the single largest line item in the federal budget within 10 years. In addition, with just a two percent (200 basis point) increase in projected interest costs, by 2040, the only thing the federal government could pay based on historical levels of revenue to GDP is interest on the mounting federal debt (See Exhibit VIII). And what do we get for that interest? Nothing!

Due to our low savings rate, and large spending appetite, America has become unduly reliant on foreign investors to finance our federal deficits and debt (See Exhibit IX). This is not in our nation's long-term economic, foreign policy, national security or domestic tranquility interests.

The history of the Suez Crisis in 1956 and the U.S. Government's more recent actions in connection with the guarantee of Fannie Mae and Freddie Mac debt in 2009 serve to demonstrate what can happen when you rely too much on foreign lenders. After all, you must pay attention to your bankers, especially if you want them to continue to lend you huge sums of money at low interest rates.

We must also recognize that current Treasury rates are low by historical standards (See Exhibit X) and foreign holdings of Treasury securities are largely in shorter maturities (See Exhibit XI). Therefore, a sudden increase in interest rates could have a dramatic and adverse affect on the federal budget, the cost of credit, and the overall economy.

As I have traveled the country and appeared in the media promoting the need for fiscal responsibility, many have asked me: Are we Greece? Their question is based on the current economic challenges facing that country which were driven in large part by dramatic increases in spending, escalating deficits and growing debt burdens. The answer that I typically give is that the U.S. is not in the same situation as Greece is today; however, we need to learn from the lessons of Greece and past history if we want to avoid a similar crisis of confidence in the future.

Most Americans would be surprised to know that the total U.S. public debt levels (i.e., federal, state and local) are already comparable to some of the financially troubled countries in Europe (See Exhibit XII). And these numbers do not include the trillions in debt owed to various federal "trust funds", like Social Security and Medicare. They also do not include the trillions in Fannie Mae and Freddie Mac debt that was recently guaranteed by the U.S. Government, and that some believe should be consolidated with the U.S. government's financial statements.

The truth is that the debt to GDP numbers that the federal government pushes to the public serve to understate our nation's true leverage. For example, current debt held by the public is about 58 percent of GDP and rising rapidly. However, by adding the debt owed to Social Security, Medicare and other trust funds, the debt/GDP ratio would already be about 89 percent of GDP and rising rapidly. Most economists believe that economic growth starts to suffer when federal debt rises to 90 percent of GDP and that federal debt to GDP in excess is 100 percent is a matter is real concern. We are rapidly approaching those levels and if you count the Fannie Mae and Freddie Mac debt we are already well past them.

While my testimony focuses on the federal government, other levels of government also face serious structural deficit challenges that must be addressed. For example, most states face large structural deficits due to Medicaid costs, unfunded retiree health plans, underfunded pension plans, deferred maintenance and other critical infrastructure needs, and public education requirements. Therefore, our national challenge is greater than our federal challenge. As a result, all levels of government will ultimately need to re-prioritize and re-engineer themselves to focus more on the future, true needs rather than unlimited wants, and generating real results.

What about savings rates? U.S. personal savings rates as a percentage of disposable income have declined dramatically from the very high World War II levels (See Exhibit XIII) and our average household savings rate is very low compared to other leading nations (See Exhibit XIV). Shockingly, due largely to huge federal deficits, the U.S. net national savings rate has plunged to the lowest level since the Great Depression (See Exhibit XV).

Why should we be concerned about this trend? Because savings represent the seed corn for a better future. With savings comes investment, new innovations, productivity improvements, capital enhancements and other things that help to promote economic growth, enhance our competitive posture and increase our standard of living.

At the same time that savings rates have plunged, household debt levels have risen dramatically (See Exhibit XVI) and the level of federal debt held by the public as a percentage of GDP has also risen dramatically in recent years (See Exhibit XVII). In fact, the total debt held by the public as a percentage of the economy is at the highest level since the record levels resulting from World War II. The combination of declining savings rates and increased debt burdens represent a clear threat to our country's future prospects.

As I previously mentioned, the most serious financial threat to our country's future is not today's deficits and debt levels. No, the real threat is represented by the escalating deficits (See Exhibit XVIII) and debt burdens we will face in the future based on our current fiscal path (See Exhibit III).

We must recognize the reality that the same four factors that contributed to the mortgage-related sub-prime crisis exist in connection with the federal government's own finances. Specifically, a disconnect between those who benefit from prevailing practices and those who will pay the price and bear the burden when the bubble bursts. Second, not enough transparency on the nature, extent and magnitude of the real risks. Third, too much debt, not enough focus on cash flow, and over reliance on credit ratings. Finally, a failure of existing governance, risk management, oversight and regulatory functions to act until a crisis is at the doorstep.

There are, however, two big differences between the mortgage-related sub-prime challenge and the U.S. Government's own deteriorating financial condition. First, the size, scope and potential adverse consequences associated with a loss of confidence in the federal government being able to put its financial house in order are much greater. Second, no one is going to "bailout" America. We need to face the facts and start making tough choices before we reach a "tipping point" and risk losing the confidence of our foreign lenders. In my view, the real risk related question in this regard is not whether the U.S. will default, but rather what will the value of the dollar be in the future. It's not clear whether and to what extent credit ratings agencies consider this factor in their ratings decisions.

Many are asking, why have the markets not already reacted to these disturbing trends? First, markets tend to be myopic. Second, there isn't enough information widely available, well understood and effectively communicated in connection with our federal finances. Finally, many people acknowledge that we while face serious fiscal challenges, they assert that some other nation's face greater fiscal challenges. This can lead to a temporary flight to relative quality until people wake-up and when they do, things can change very quickly. Why would we want to take the related risk when the numbers are so clear and compelling?

Clearly the U.S. benefits from being the largest economy in the world and the world's leading reserve currency. This gives us more time and rope to play with but neither are unlimited. In my view, the U.S. also benefits from some "home team bias" since the most of the major credit ratings agencies are based in the U.S. These agencies are not infallible, as was evident in connection with their flawed ratings of a range of mortgage-backed securities in the recent housing and financial crisis.

In closing, America is a great nation, but we are at a critical crossroads. The fiscal decisions that elected officials make or fail to make within the next 3-5 years will largely determine whether our collective future will be better than out past. We must wake-up, recognize reality, and make tough choices in order to help ensure that America stays strong, the American dream stays alive and our future is better than our past. However, to do so we need to employ special processes since the regular legislative order is broken. We should also act sooner rather than later and before we face an immediate crisis where things could spin out of control.

Ultimately we will need to take a range of steps that will help us recapture fiscal flexibility and stabilize our debt/GDP at a reasonable and sustainable level (e.g., 60 percent of GDP). This includes re-imposing tough but realistic statutory budget controls, achieving comprehensive Social Security reform, increasing overall savings rates, enacting health care reform that reduces health care costs and stabilizes total health care costs as a percentage of the budget and the economy, implementing defense and other spending reprioritization and constraint, and engaging in comprehensive tax reform that will raise more revenues as a percentage of the economy. A number of such illustrative reform proposals are outlined on our foundation's web site at www.pgpf.org, and additional reform options are included in my book entitled Comeback America: Turning the Country Around and Restoring Fiscal Responsibility. More information on this book can be found at www.comebackamericathebook.com.

What does the public think about this issue? In a November 2009 survey sponsored by the Peterson Foundation, 80 percent of the American people responded that they are concerned about our nation's finances and feel that action is needed to put them in order. In addition, an April 2010 Global Strategy Group survey that polled former top federal government economic and budget officials showed 100 percent agreement that the federal government is currently on an unsustainable longer term fiscal path.

A super majority of these officials also agreed that action should be taken within the next one to two years to begin to address it.

We are encouraged by the President's creation of a Fiscal Responsibility and Reform Commission to help address this important issue. However, in the final analysis, concrete action by responsible elected officials is required if we want our republic to stand the test of time and ensure that our future will be better than our past. It is also important that we act sooner rather than later because the changes that will be necessary will only grow larger with the passage of time (See Exhibit XIX).

We at the Peterson Foundation will continue to do our part to help promote more federal fiscal responsibility and accountability today in order to create more opportunity tomorrow. This includes, but is not limited to, educating and activating the American people about our challenge and a range of sensible solutions in order to accelerate action in Washington. Yes, we at the Peterson Foundation will do our part; all that I ask is that you do yours. Our nation's founders and our families deserve no less.

Thank you again for the opportunity to testify. I would be happy to answer any questions you may have.

Peter G. Peterson Foundation

Our America. Our Future.

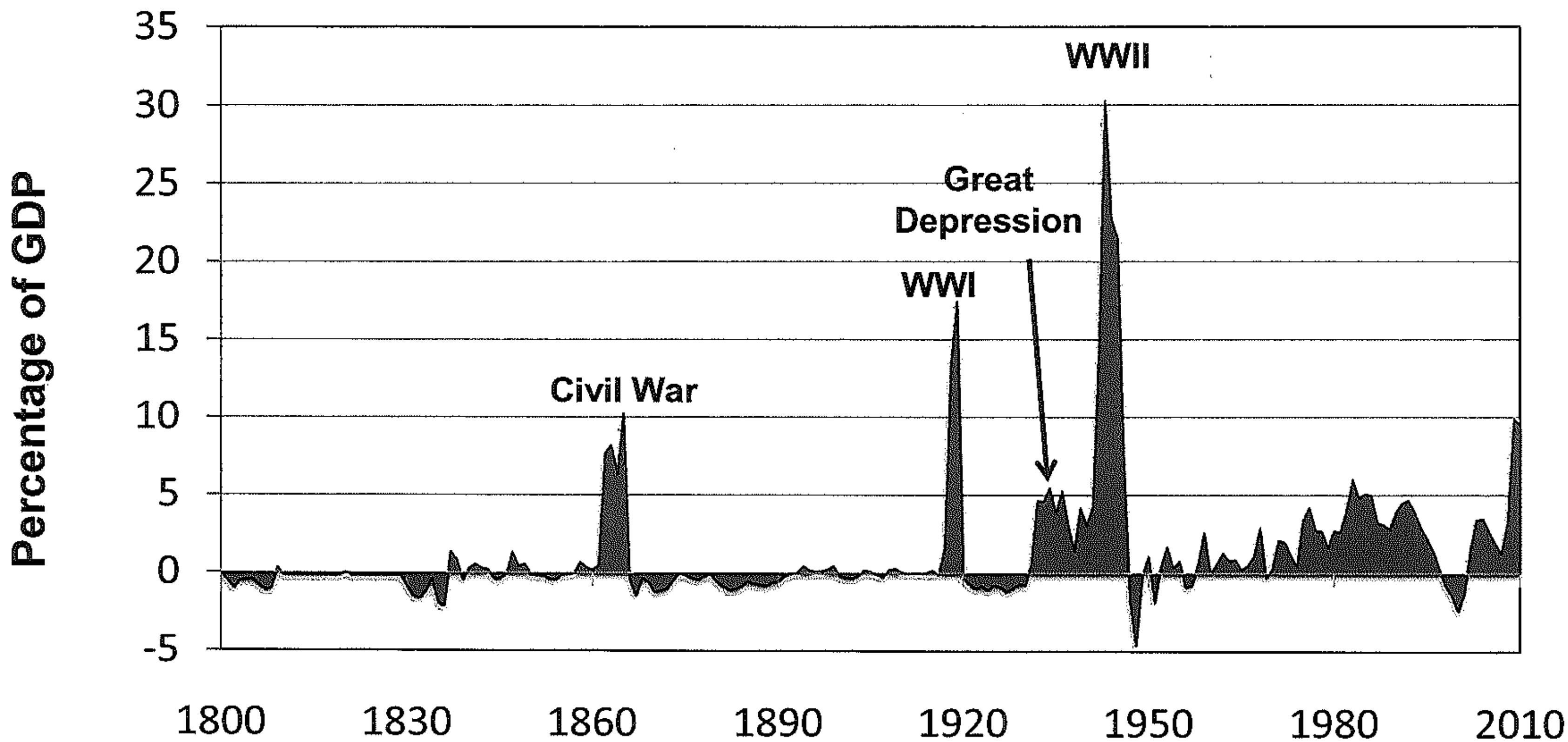
America's Addiction to Debt

Exhibits

May 6, 2010

Peter G. Peterson Foundation
Our America. Our Future.

Up until the Great Depression the U.S. experienced more budget surpluses (-) than deficits (+)

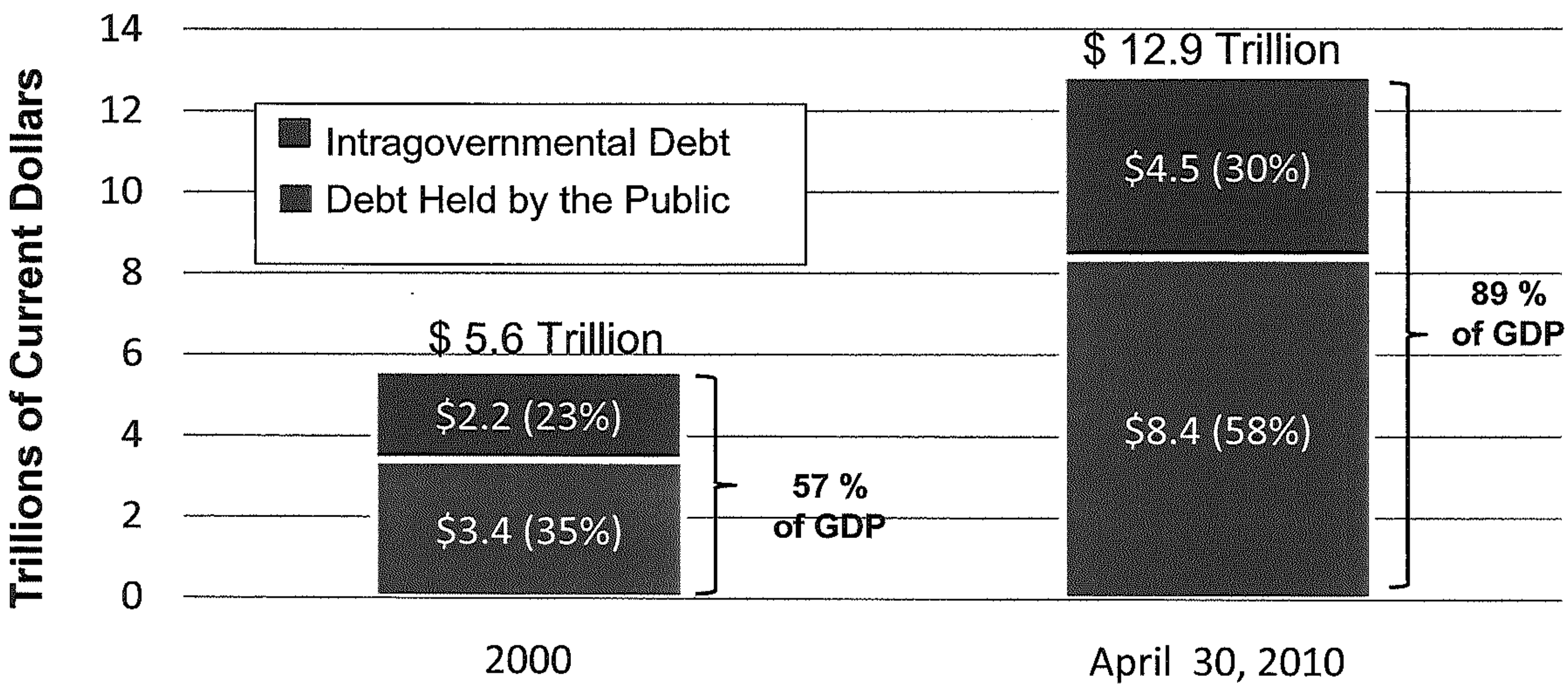


SOURCES: Data the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010, the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*: January 2010 Update, alternative simulation using Congressional Budget Office assumptions and other government sources. Compiled by PGPF.

Exhibit I

Peter G. Peterson Foundation
Our America. Our Future.

The total debt includes debt held by the public (domestic and foreign investors) and debt the government owes to various government programs*



*Intragovernmental debt includes Treasury securities held by federal trust funds (e.g., Social Security and Medicare) and other government accounts. Debt held by the public includes both domestic and foreign holders of Treasury Securities.

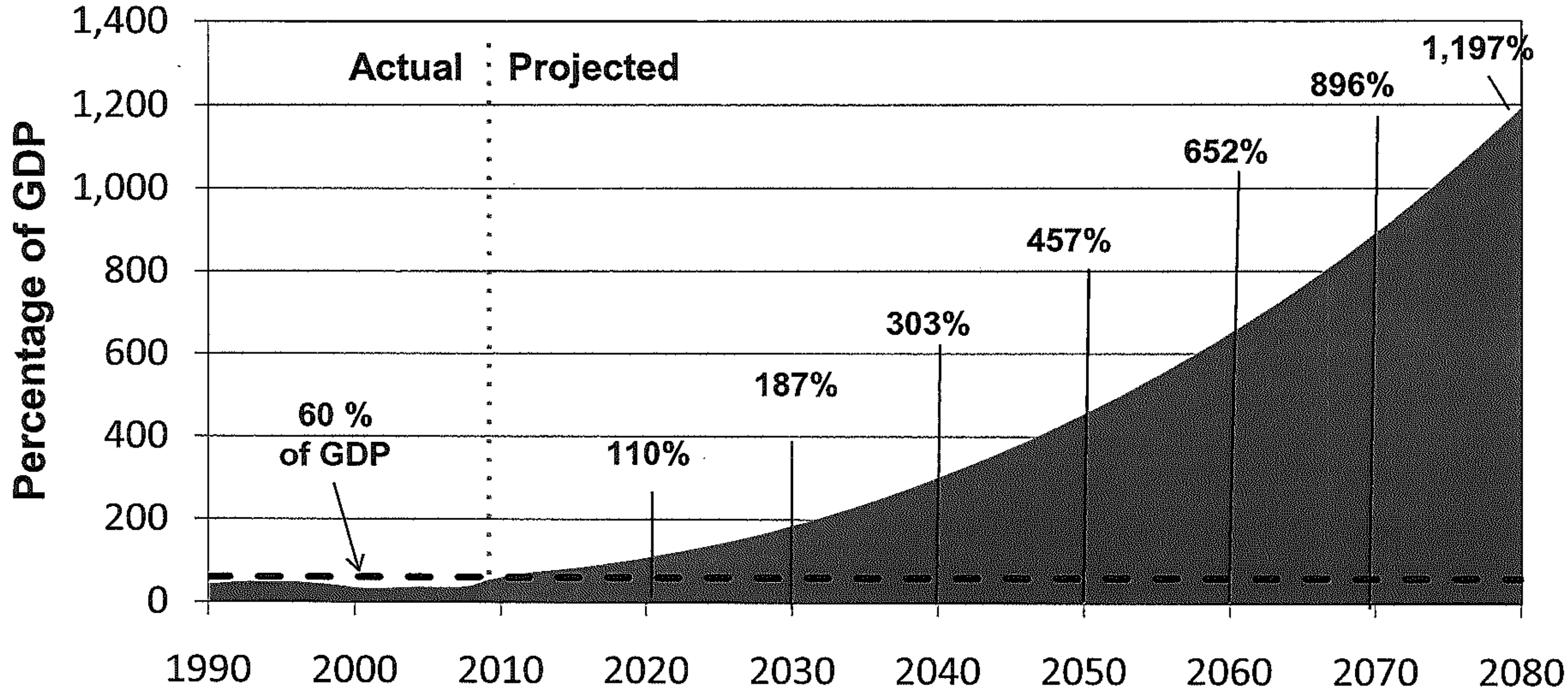
NOTE: Totals may not add due to rounding.

SOURCES: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget (February 1, 2010)*, Historical Tables, Department of Treasury, *Daily Treasury Statement* (April 15, 2010) and Congressional Budget Office, *Preliminary Analysis of the President's Budget*: March 2010. Compiled by PGPF.

Exhibit II

Peter G. Peterson Foundation
Our America. Our Future.

Future U.S. debt held by the public is projected to soar if current policies remain unchanged

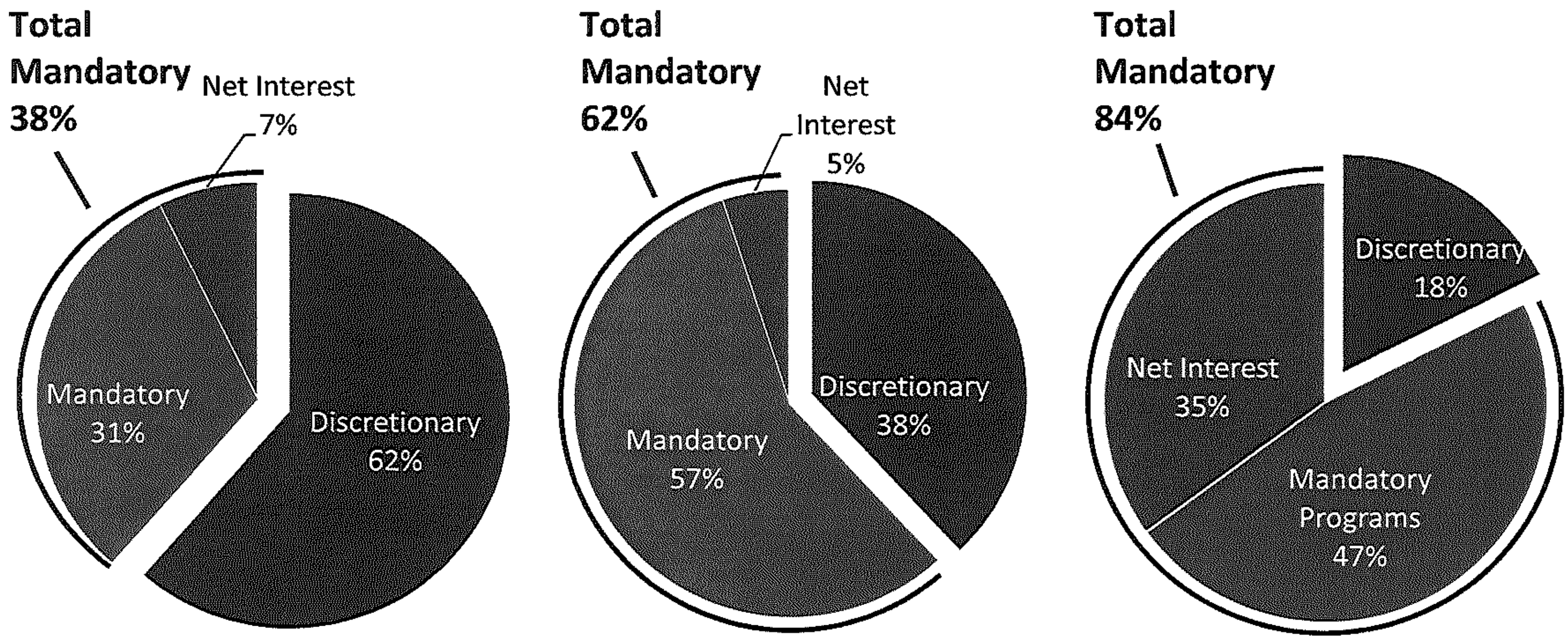


NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.
SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*, the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook, January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Exhibit III

Peter G. Peterson Foundation
Our America. Our Future.

Mandatory programs – including Social Security, Medicare, Medicaid and other entitlement programs – and interest costs are taking over more and more of the federal budget



Total Spending 1970: $900 Billion (Constant 2009 Dollars)

Total Spending 2010: $3.5 Trillion (est.) (Constant 2009 Dollars)

Total Spending 2040: $11.8 Trillion (est.) (Constant 2009 Dollars)

SOURCES: Data derived from the Office of Management and Budget, *FY 2011 Budget, Historical Tables*, February 2010; and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*, January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Calculated by PGPF.

Exhibit IV

Peter G. Peterson Foundation
Our America. Our Future.

Tax expenditures, deductions, credits, and other special provisions total an estimated $1 trillion annually and provide substantial benefits that are not counted in the budget

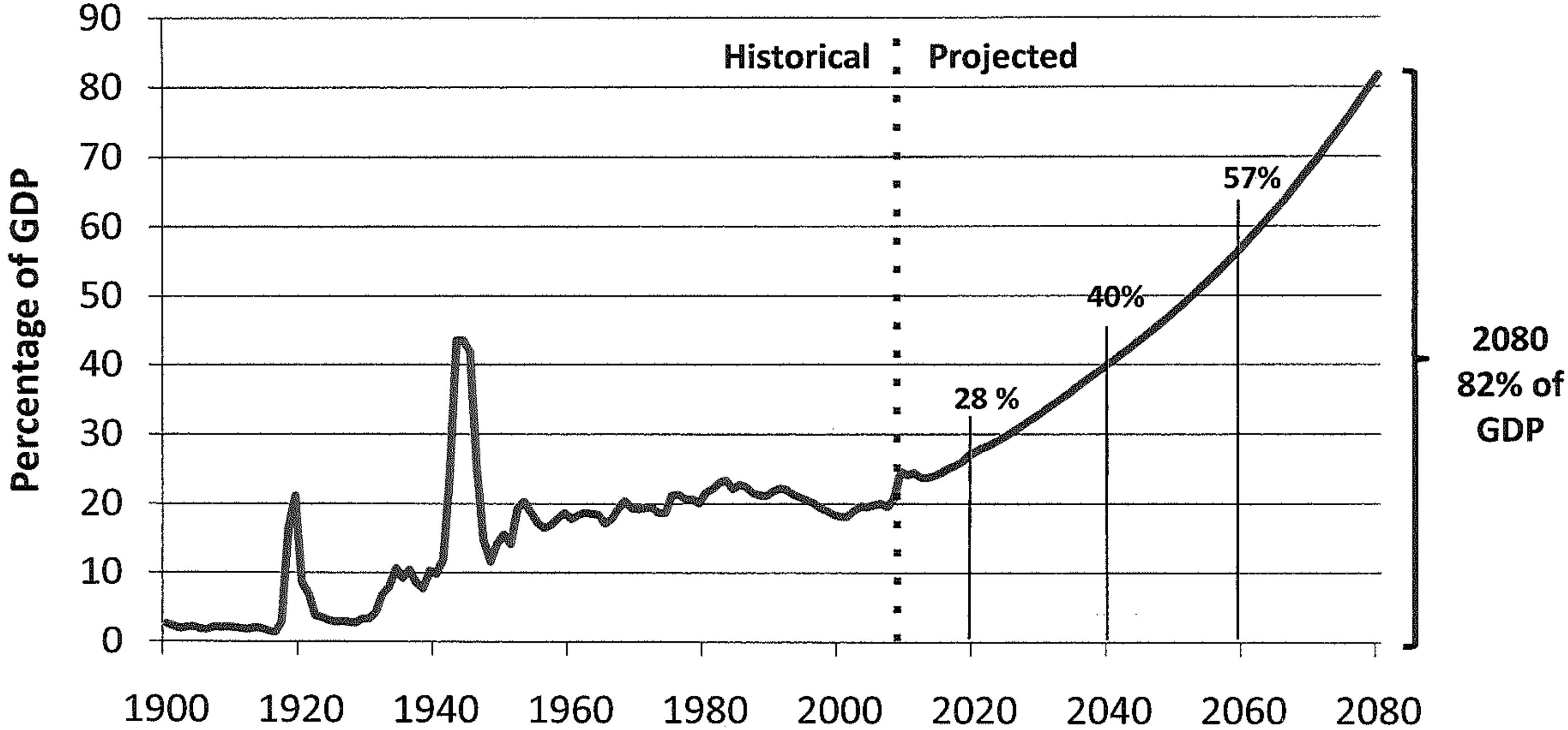
Top 5 Tax Expenditures	Tax Revenue Lost (FY2010)
1. Exclusion of employer provided health insurance from taxable income.*	$262 billion
2. Exclusion of pension contributions and earnings.**	$122 billion
3. Deduction of mortgage-interest on a primary residence.	$92 billion
4. Deduction of non-business state and local taxes (includes income, property and sales taxes)	$53 billion
5. Step-up basis of capital gains at death.***	$37 billion
Total of Top 5	**$565 billion**

* Includes the exclusion from payroll taxes and income taxes.
** Includes employer pension plans, employee and employer contributions to 401k plans, IRAs, and Keough plans.
*** When inherited assets are sold, the calculation of taxable capital gain is based on the value at the time the assets were inherited instead of the value when they were originally bought.
SOURCE: Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Analytic Perspectives*, February 2010.

Exhibit V

Peter G. Peterson Foundation
Our America. Our Future.

Federal spending is projected to soar far above its 50-year average of 20.5 percent of GDP if current policies remain unchanged



SOURCES: Data from the *Historical Statistics of the United States*, Millennial Edition Online, Cambridge 2006, the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010, and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook,* January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Exhibit VI

Peter G. Peterson Foundation
Our America. Our Future.

Major Fiscal Exposures: Another measure of the federal government's fiscal condition

In Trillions of Dollars

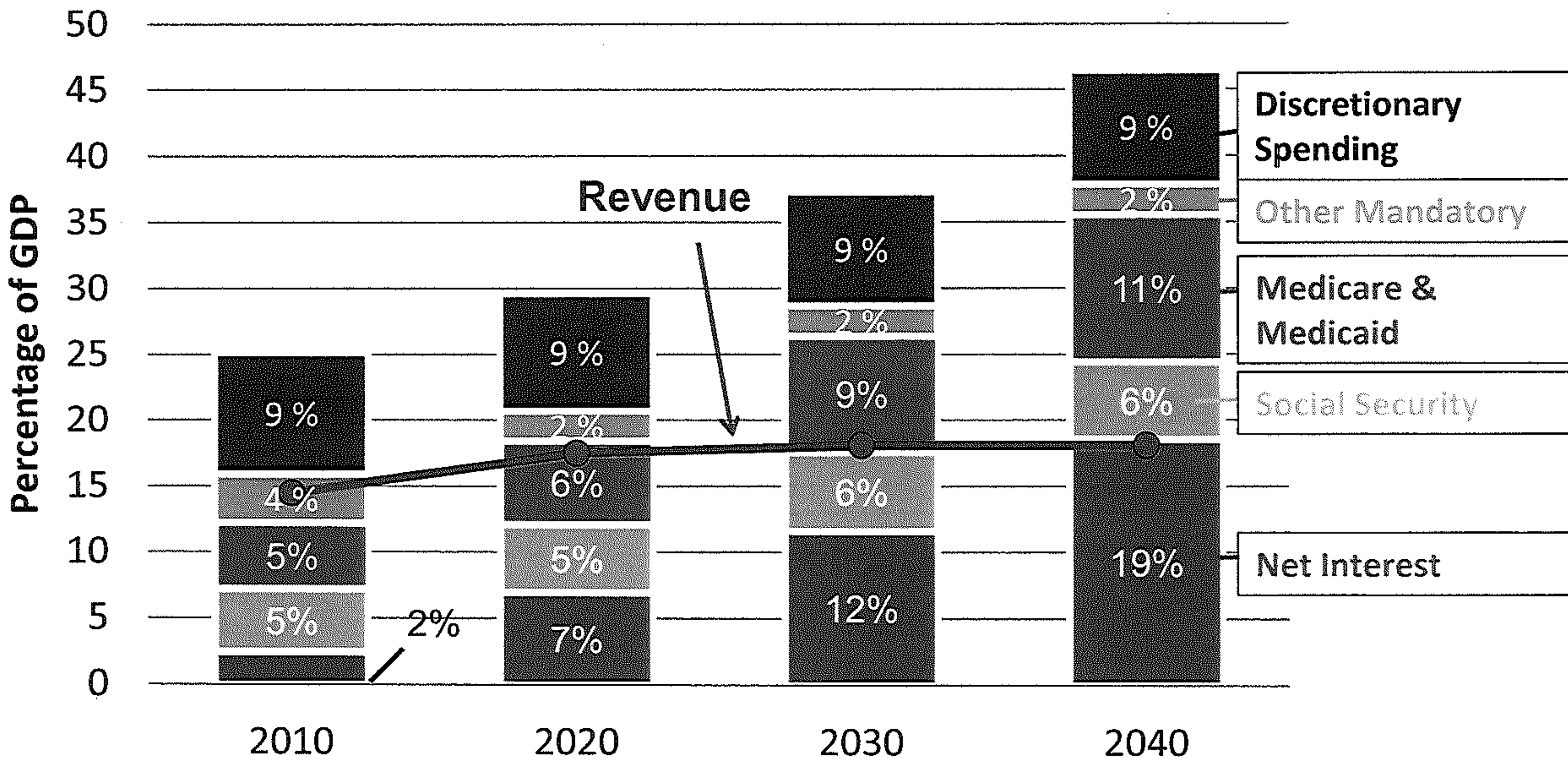
	2000	2009
Explicit liabilities	**$6.9**	**$14.1**
Publicly held debt	3.4	7.6
Military & civilian pensions & retiree health	2.8	5.3
Other Major Fiscal Exposures	0.7	1.3
Commitments & contingencies	**0.5**	**2.0**
E.g., Pension Benefit Guaranty Corporation, undelivered orders		
Social insurance promises	**13.0**	**45.8**
Future Social Security benefits	3.8	7.7
Future Medicare benefits	9.2	38.2
Future Medicare Part A benefits	2.7	13.8
Future Medicare Part B benefits	6.5	17.2
Future Medicare Part D benefits	--	7.2
Total	**$20.4**	**$61.9**

NOTE: May not add due to rounding. Estimates for Medicare and Social Security benefits are from the Social Security and Medicare Trustees reports which are as of January 1, 2009 and show social insurance promises for the next 75 years. Future liabilities are discounted to present value based on a real interest rate of 2.9% and CPI growth of 2.8%. The totals do not include liabilities on the balance sheets of Fannie Mae, Freddie Mac, and the Federal Reserve. Assets of the U.S. government not included. Does not include civil service and military retirement funds, unemployment insurance and debt held by other government accounts outside of Social Security and Medicare.
SOURCE: Data from the Department of Treasury, 2009 Financial Report of the United States Government. Compiled by PGPF.

Exhibit VII

Peter G. Peterson Foundation
Our America. Our Future.

Without fiscal reforms, federal interest costs alone would consume all projected revenues by 2040 if baseline interest rates rise 2 percent to 7.4%. (The historical interest rate since 1980 is 6.4%.)

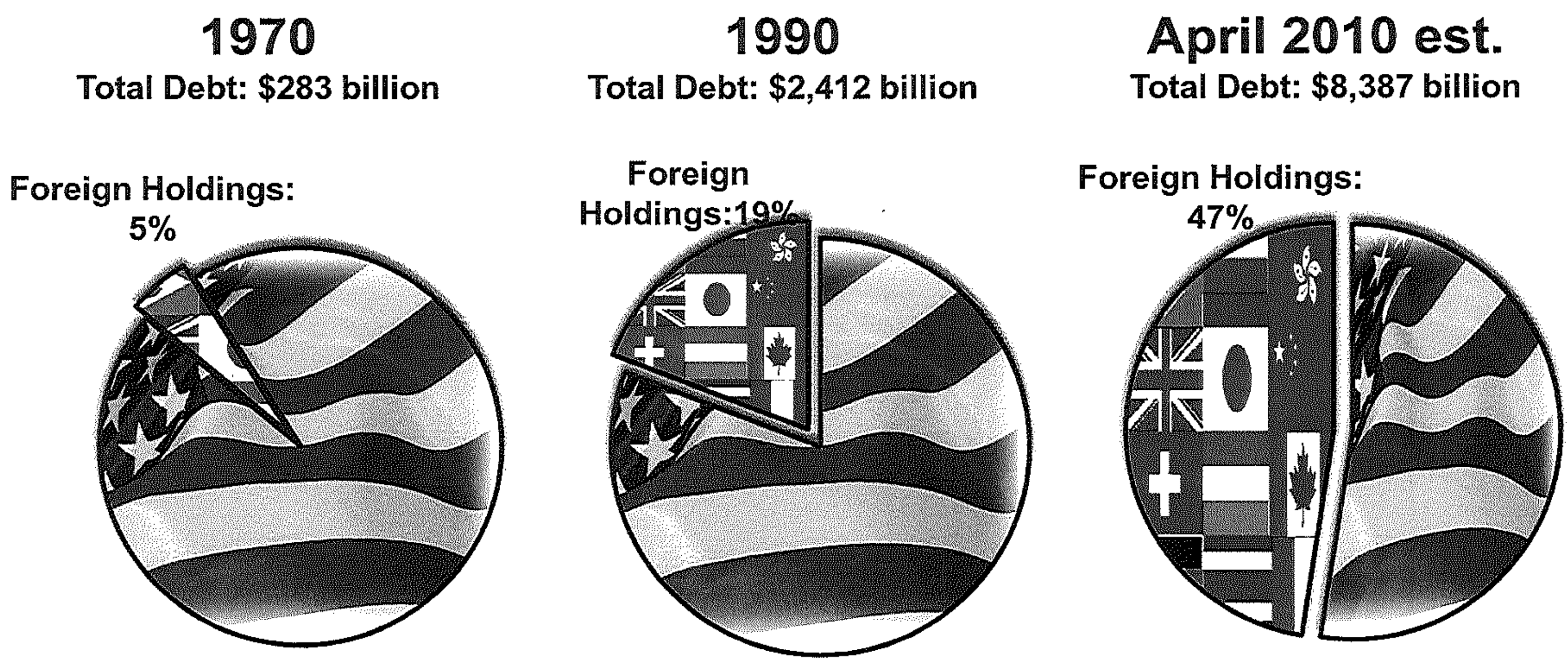


NOTE: Implied average interest rate in baseline is 4.8 percent in 2019 and thereafter. A 2 percent rate increase would be within historic range for Treasury interest rates.
SOURCE: Data from the Government Accountability Office *The Federal Government's Long-Term Fiscal Outlook:* January 2010, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Exhibit VIII

Peter G. Peterson Foundation
Our America. Our Future.

U.S. dependency on foreign lenders to finance the public debt has risen sharply

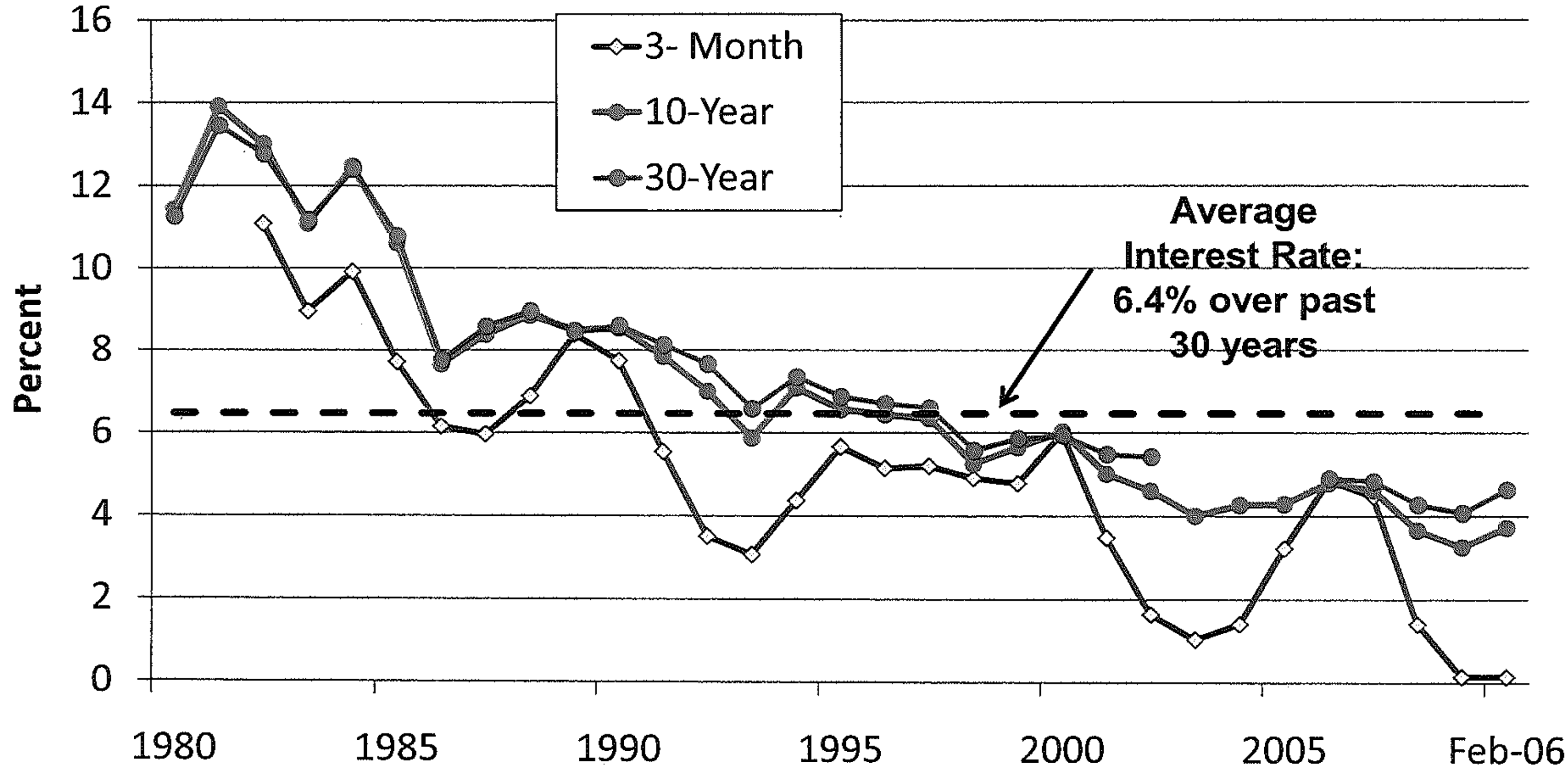


SOURCE: Data for 1970 and 1990 from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Analytical Perspectives*, February 2010. Data for 2010 from Department of Treasury, *Daily Treasury Statement (April 15, 2010)* and Treasury International Capital Reporting System, April 15, 2010 release. Compiled by PGPF.

Exhibit IX

Peter G. Peterson Foundation
Our America. Our Future.

Current Treasury interest rates are low by historical standards

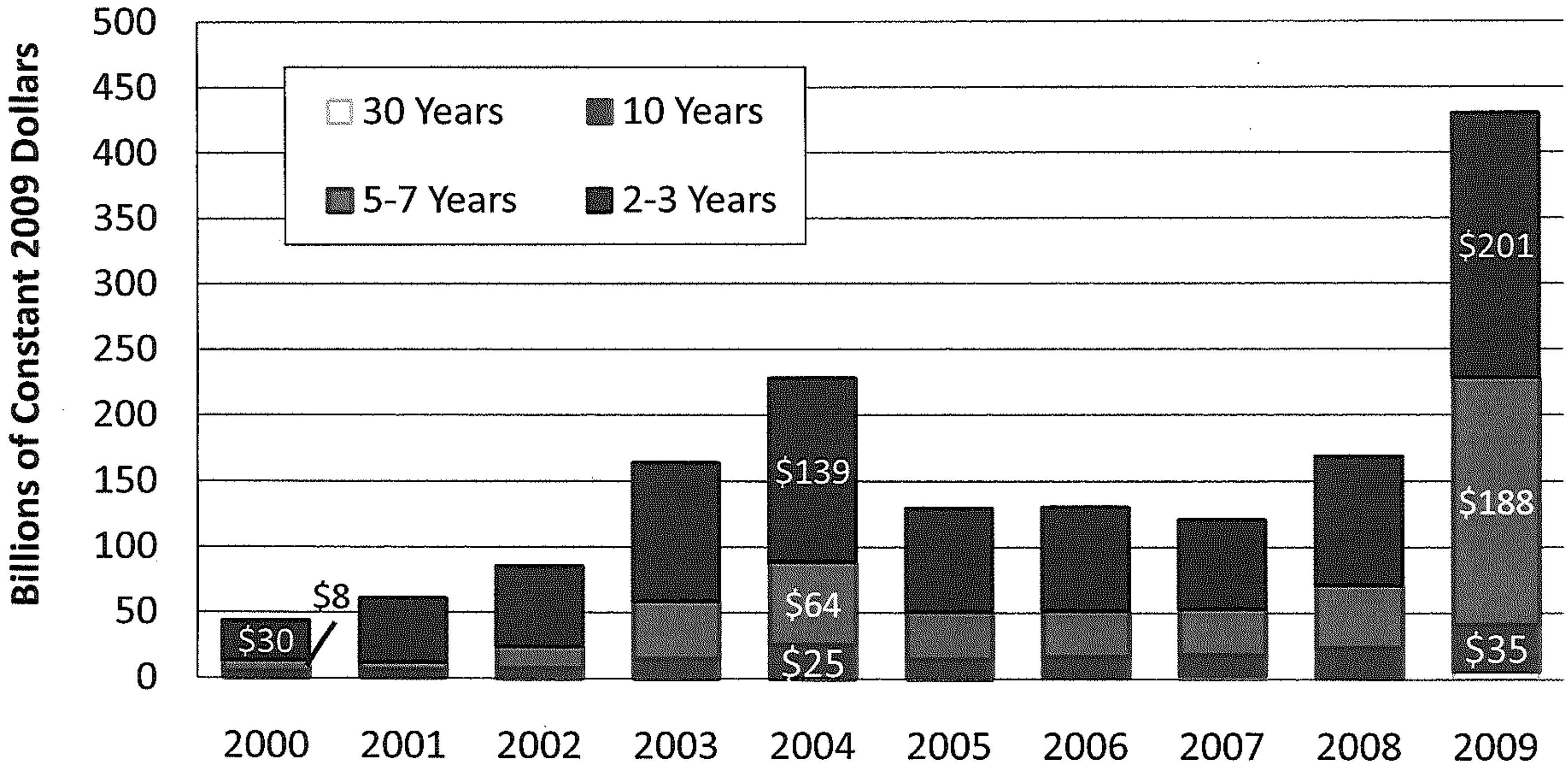


NOTE: The U.S. Treasury Department did not offer 30-year bonds between 2003 and 2006.
SOURCE: Data from the Federal Reserve *Statistical Release*, Table H.15, Selected Interest Rates, Historical Data, accessed April 14, 2010.
Complied by PGPF.

Exhibit X

Peter G. Peterson Foundation
Our America. Our Future.

Foreign purchases of Treasury securities are largely in shorter maturities, indicating sizeable interest-rate risk upon rollover

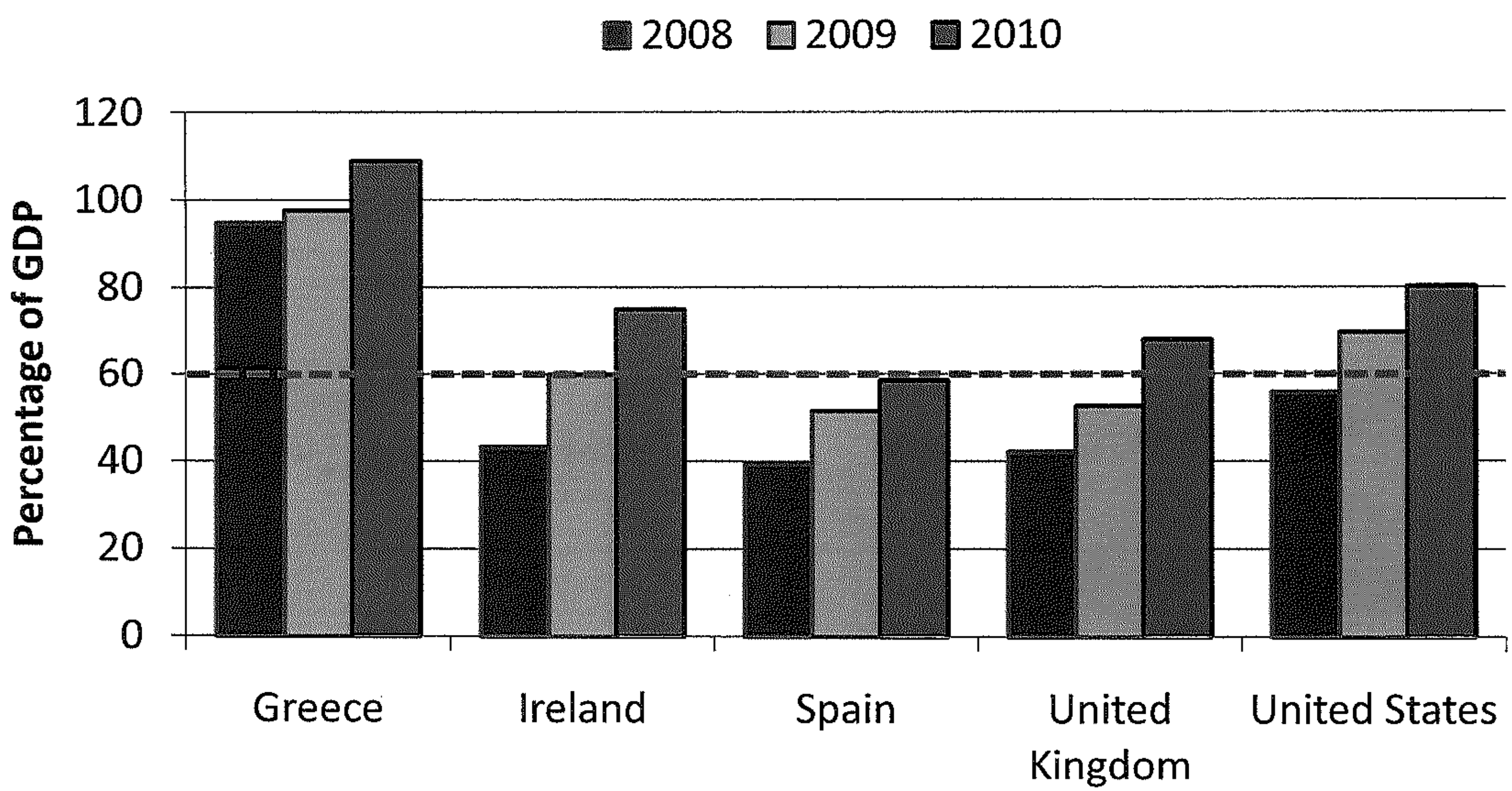


NOTE: Purchases only reflect gross foreign purchases, and they exclude gross sales of Treasury Inflation Protected Securities (TIPS) by foreign investors.
SOURCE: Data from the U.S. Treasury, Office of Debt Management, Investor Class Auction Allotments. Compiled by PGPF.

Exhibit XI

Peter G. Peterson Foundation
Our America. Our Future.

Public debt levels in the U.S are comparable to some of the financially troubled countries in Europe

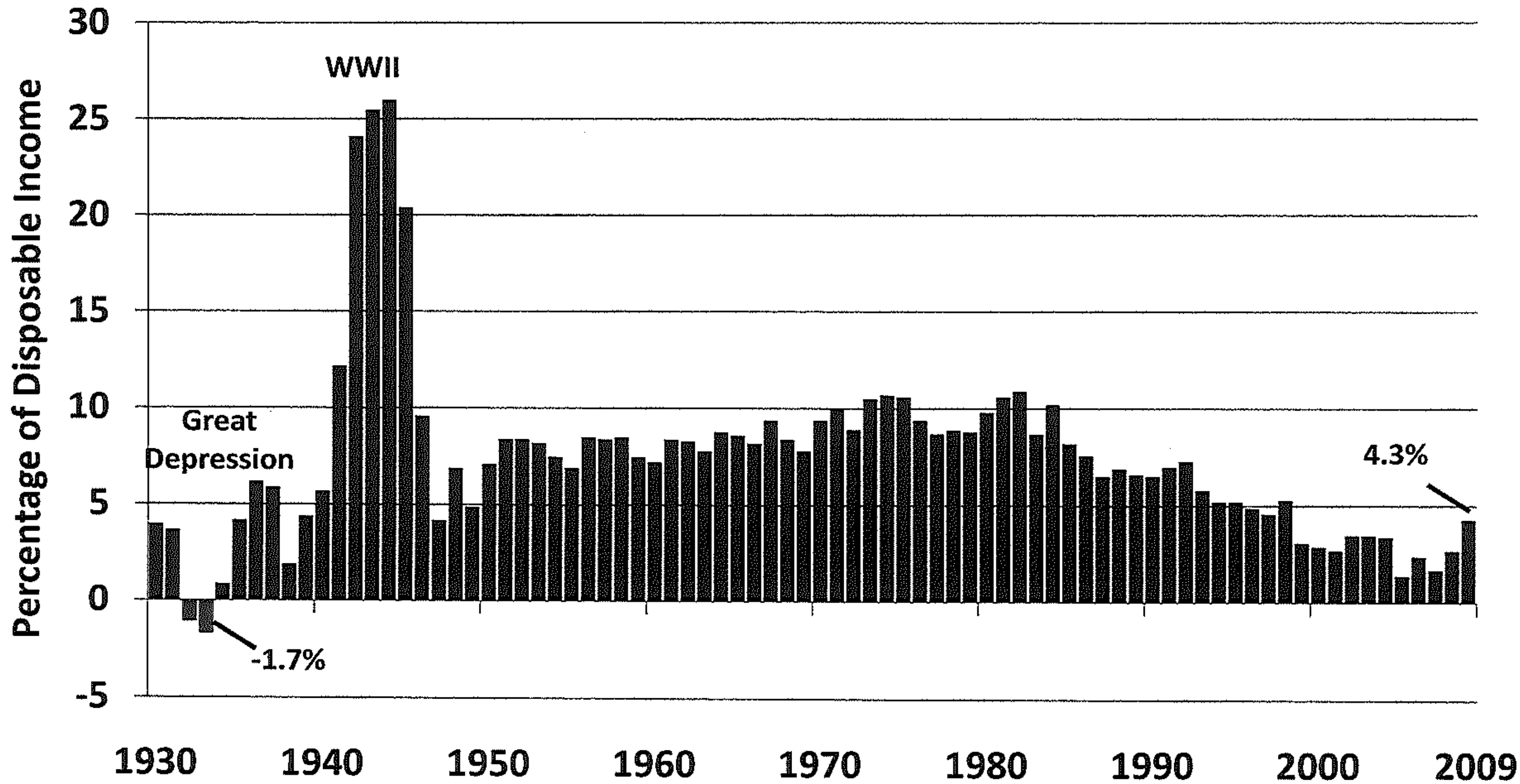


NOTE: All 2009 and 2010 numbers are projections. Public debt here refers to state and local governmental debt as well as debt held by the public, or all federal debt held by individuals, corporations, state or local governments, and foreign entities.
SOURCE: International data from the International Monetary Fund. U.S. data from the Federal Reserve, *Flow of Funds Accounts of the United States;* and the Office of Management and Budget, *The 2011 Budget: Historical Tables.* Compiled by PGPF.

Exhibit XII

Peter G. Peterson Foundation
Our America. Our Future.

Current U.S. personal savings as a percent of disposable income has fallen to historically low levels

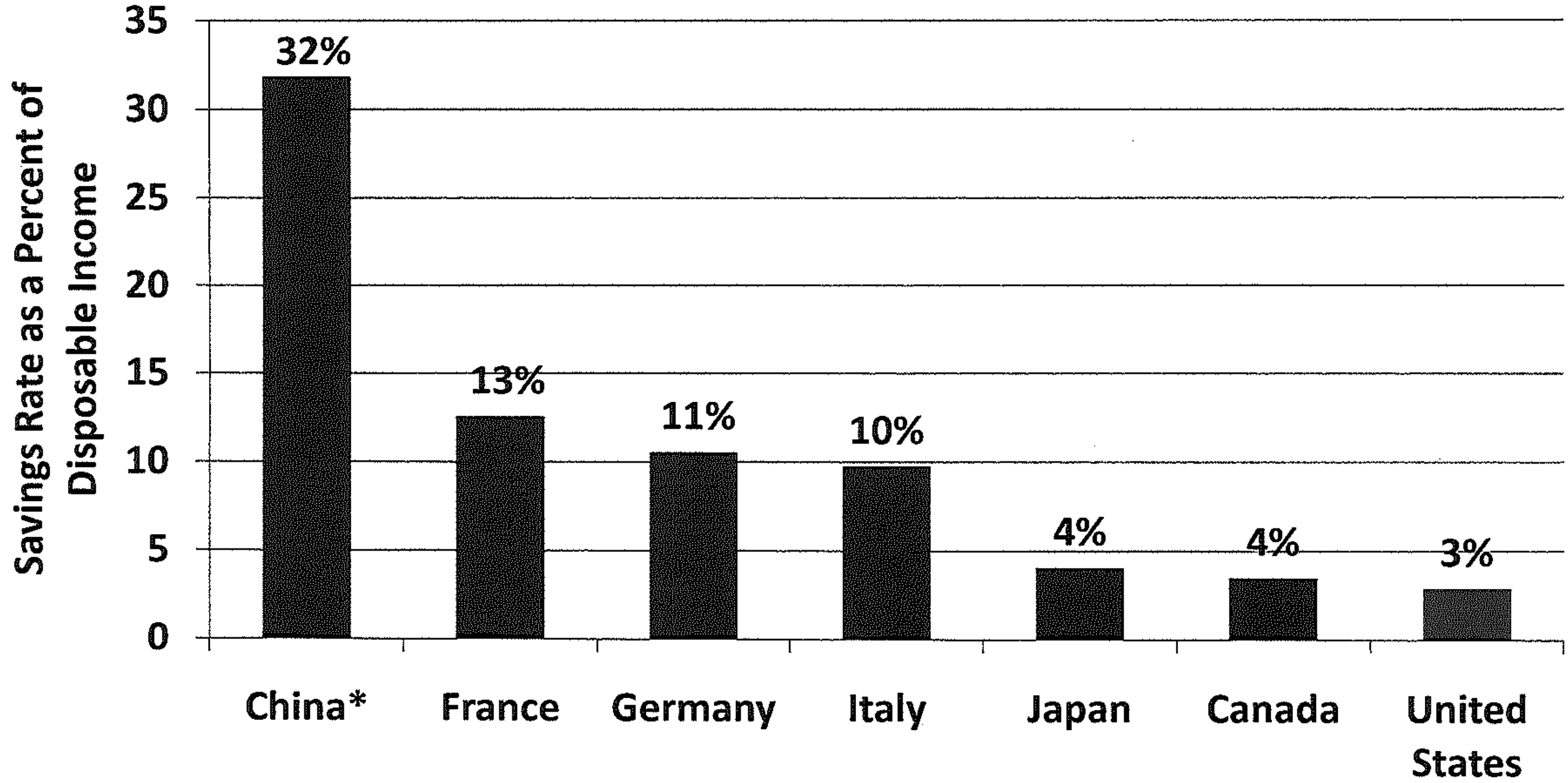


SOURCE: Data from Bureau of Economic Analysis, *Personal Income and Its Disposition:* February 2010. Compiled by PGPF.

Exhibit XIII

Peter G. Peterson Foundation
Our America. Our Future.

Among OECD countries, U.S. has the lowest average household savings rate as a percent of disposable income over 2000-2010 period

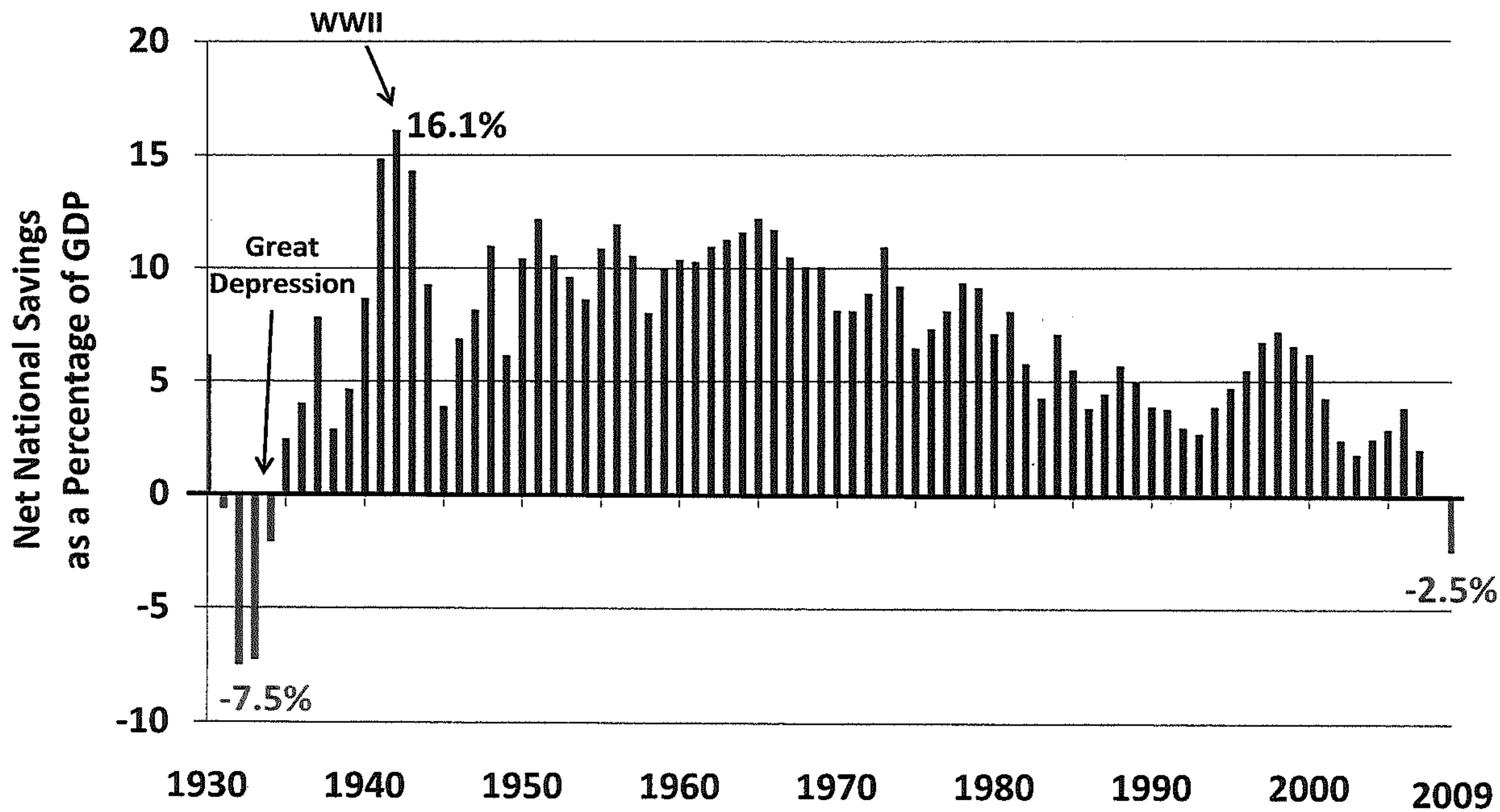


*Data for China actually reflects average across the period of 2000-2007.
SOURCE: Data from the OECD *Economic Outlook Volume 2009 Issue 2:* December 2009; CEIC *Flow of Funds* data, for China. Compiled by PGPF.

Exhibit XIV

Peter G. Peterson Foundation
Our America. Our Future.

Current net national savings are at their lowest level since the Great Depression

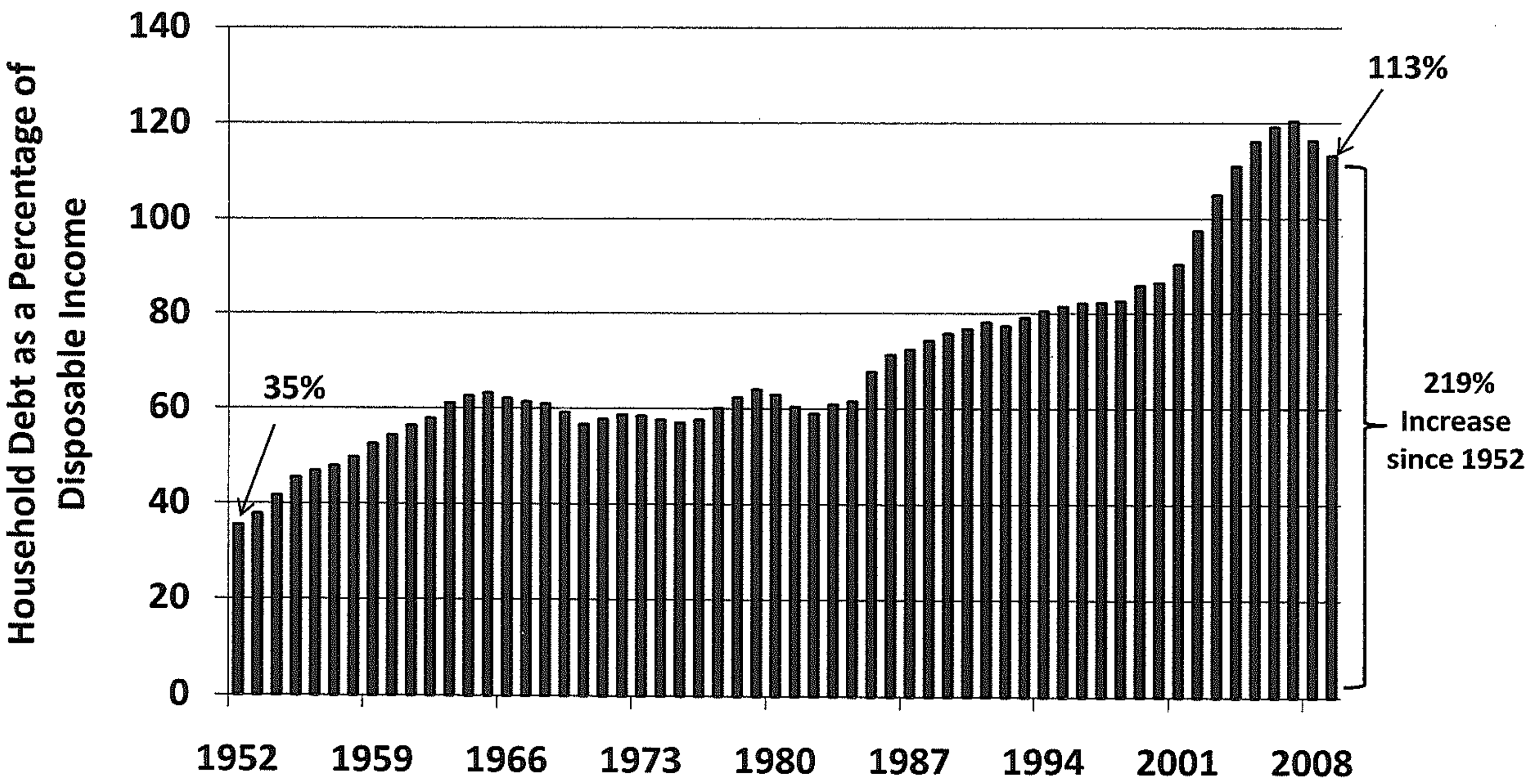


SOURCE: Data from the Bureau of Economic Analysis, National Income and Product Accounts. Compiled by PGPF.

Exhibit XV

Peter G. Peterson Foundation
Our America. Our Future.

U.S. household debt has reached historically high levels as a percent of disposable Income

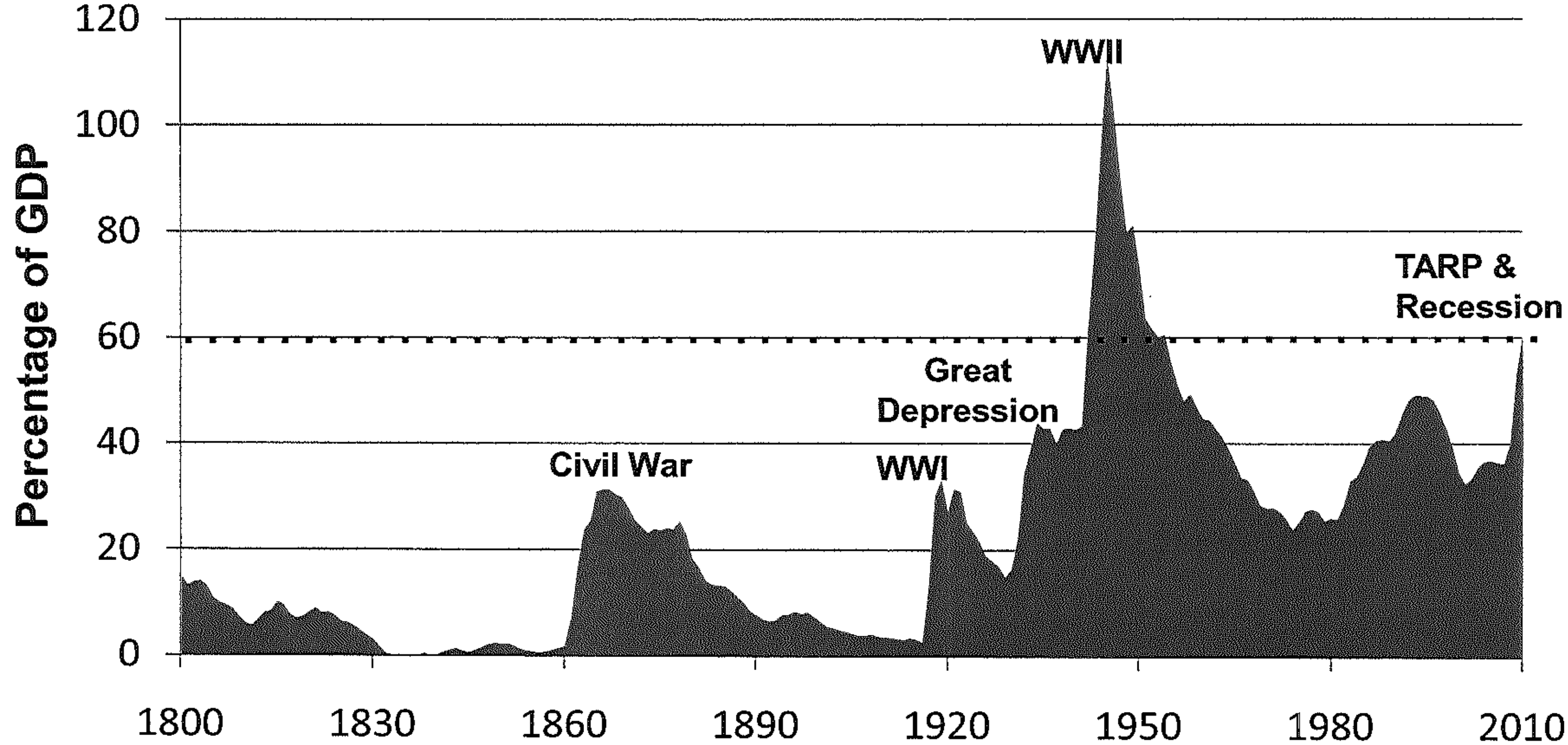


SOURCES: Data from the US Census Bureau, *Flow of Funds Accounts—Liabilities of Households and Nonprofit Organizations;* and Bureau of Economic Analysis, *Personal Income and Its Disposition*: February 2010. Compiled by PGPF.

Exhibit XVI

Peter G. Peterson Foundation
Our America. Our Future.

Since 1800, U.S. debt held by public has exceeded 60% of GDP only during World War II



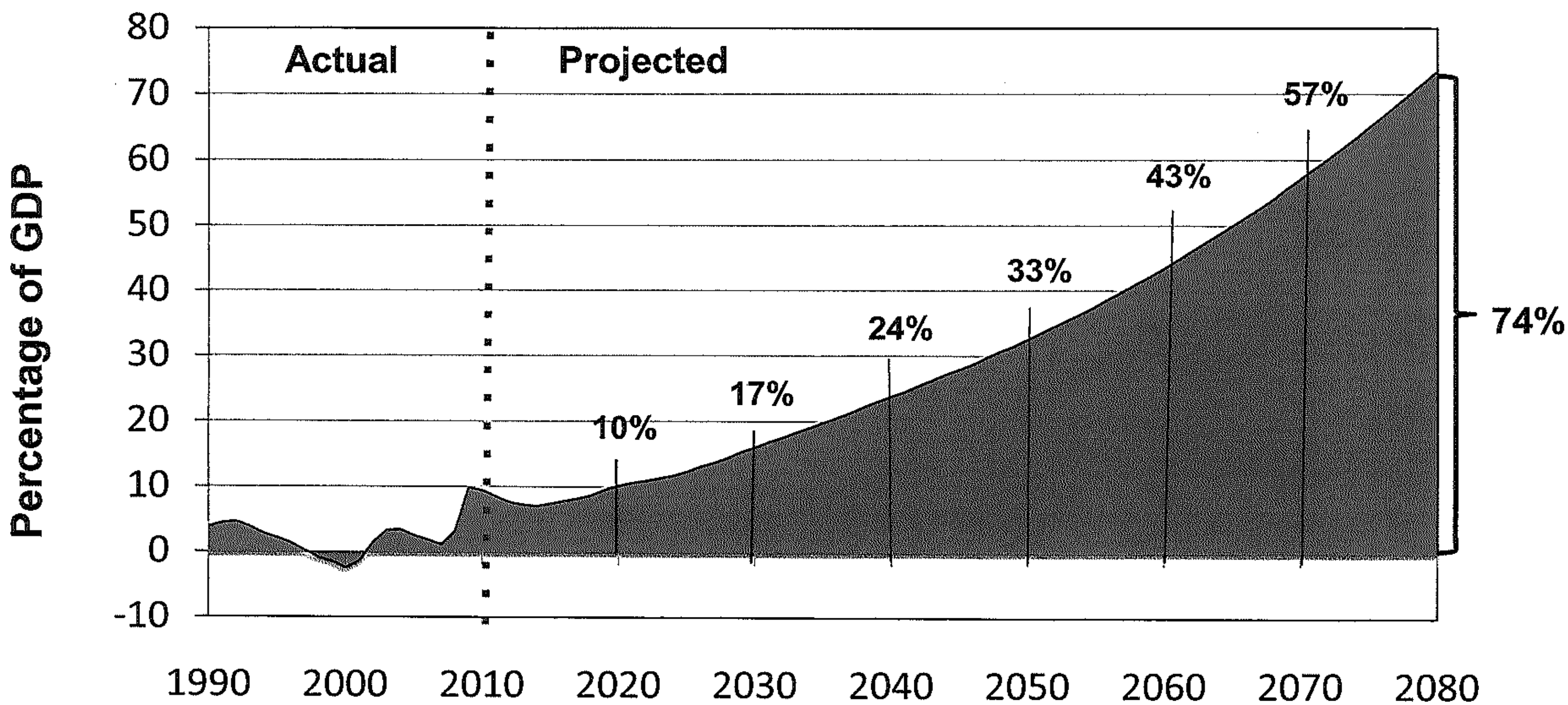
NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009,* the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*: January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Exhibit XVII

Peter G. Peterson Foundation
Our America. Our Future.

Under current policies, federal deficits (+) are projected to more than double as a percentage of GDP even after the economy recovers

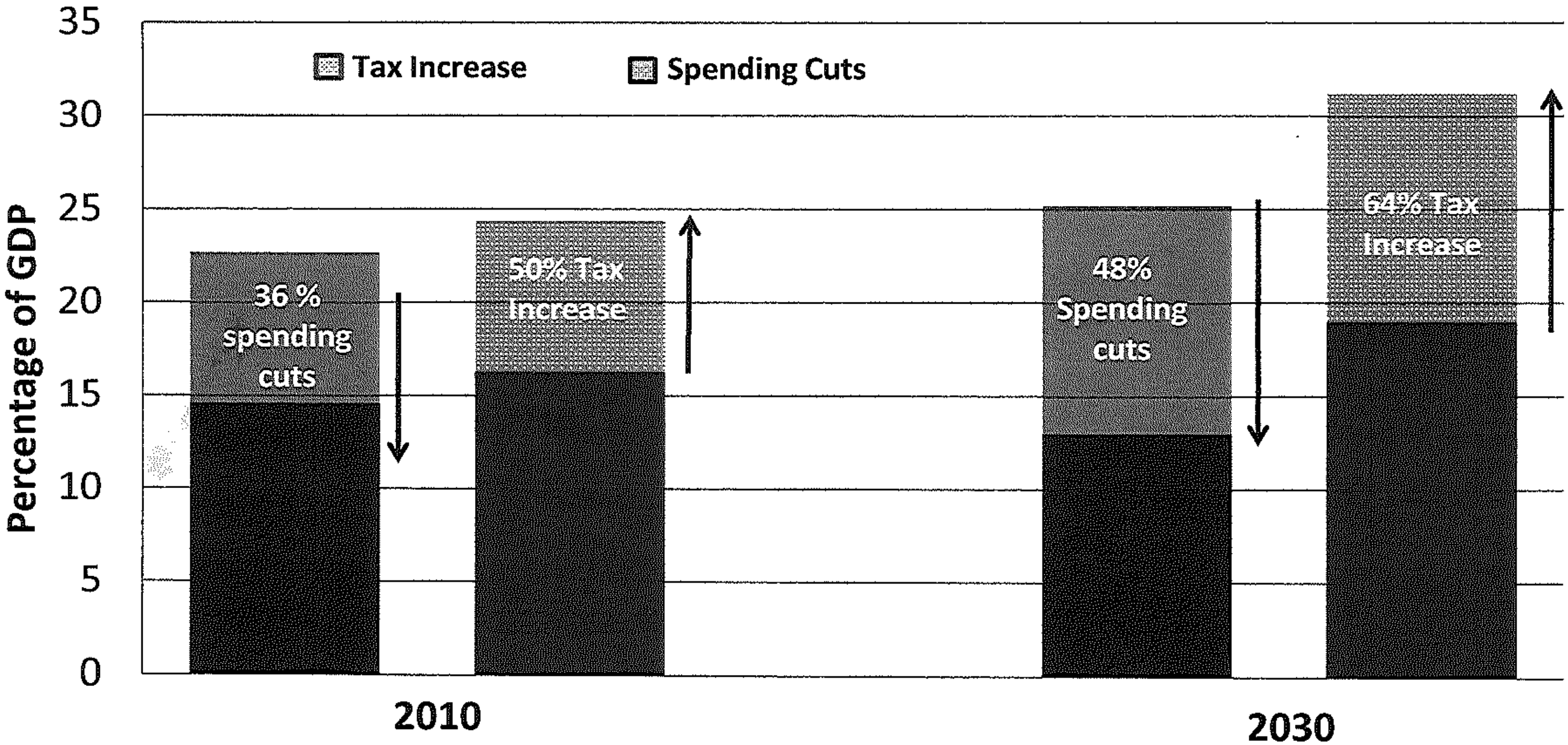


NOTE: Current policy estimates assume extension of the 2001 and 2003 tax cuts, alternative minimum tax (AMT) exemption amount is indexed to inflation, Medicare physician payments are not reduced, and discretionary spending grows with GDP.
SOURCES: Data the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010, and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*: January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

Exhibit XVIII

Peter G. Peterson Foundation
Our America. Our Future.

If we wait to close the fiscal gap, by using spending cuts or tax increases alone, we would face more and more difficult choices in the future



NOTE: Spending refers to non-interest spending. The amounts shown are the non-interest spending cuts or tax increases from the projected levels required to close the projected fiscal gap by using only one or the other, not both. The fiscal gap refers to the reduction in spending or increase in taxes required to keep debt-to-GDP no higher than the 2010 level in 2085.
SOURCE: Data from the Congressional Budget Office, *Long-Term Budget Outlook*, June 2009. Compiled by PGPF.

Exhibit XIX