

COMPTROLLER GENERAL'S

FORUM



HIGHLIGHTS OF A GAO FORUM

The Long-Term Fiscal Challenge

February 2005

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Introduction from the Comptroller General of the United States

In my role as lead partner on the audit of the U.S. government's consolidated financial statements and the de-facto Chief Accountability Officer of the United States Government, I have become increasingly concerned about the state of our nation's finances. In speeches and presentations over the past several years, I have called attention to our large and growing long-term fiscal challenge and the risks it poses to our nation's future.

Simply put, our nation's fiscal policy is on an unsustainable course. As long-term budget simulations by GAO, the Congressional Budget Office (CBO), and others show, over the long term we face a large and growing structural deficit due primarily to known demographic trends and rising health care costs. Continuing on this unsustainable fiscal path will gradually erode, if not suddenly damage, our economy, our standard of living, and ultimately our national security. Our current path also will increasingly constrain our ability to address emerging and unexpected budgetary needs.

Regardless of the assumptions used, all simulations indicate that the problem is too big to be solved by economic growth alone or by making modest changes to existing spending and tax policies. Nothing less than a fundamental reexamination of all major existing spending and tax policies and of priorities is needed. This reexamination should also involve a national discussion about what Americans want from their government and how much they are willing to pay for those things. This discussion will not be easy, but it must take place.

Within the community of those concerned with the long-term fiscal challenge, a broad and bipartisan recognition exists that it should be addressed sooner rather than later. Within just the last 18 months, there have been increased efforts to call attention to the nature and importance of the challenge. For example, I spoke about this at the National Press Club in September 2003.¹ In December 2003 CBO issued a report detailing the results of its long-term budget simulations.² In addition, GAO continues to issue updates of its long-term budget simulations three times per year.

¹ *Truth and Transparency: The Federal Government's Financial Condition and Fiscal Outlook*, by the Honorable David M. Walker, Comptroller General of the United States, Sept. 17, 2003, at the National Press Club.

² Congressional Budget Office, *The Long-Term Budget Outlook* (Washington, D.C.: December 2003).

Furthermore, organizations ranging across the political spectrum—including the Brookings Institution, the Cato Institute, the Center on Budget and Policy Priorities, the Committee on Economic Development, the Committee for a Responsible Federal Budget, the Concord Coalition, and the Heritage Foundation—have taken steps, either individually or with others, in a series of efforts to better inform the public of the dangers posed by the long-term fiscal challenge and to begin a public discussion that can ultimately lead to action.

As with any major public policy challenge, effective and sustained leadership will be critical. But leadership cannot succeed without public understanding and support. Research on public opinion, however, shows that while the public is aware of the long-term fiscal challenge, it does not have a good handle on the size and implications of this challenge. In addition, the public consistently ranks our long-term fiscal challenge as low priority relative to other issues, such as the current state of the economy. This gap in public understanding of the nature and magnitude of the long-term fiscal challenge—and how to bridge it—was the subject of GAO’s December 2, 2004, forum on the long-term fiscal challenge.

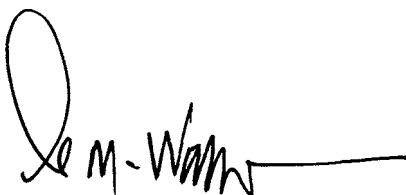
The forum sought to move beyond “the usual suspects” to expand the circle of concern. The forum sought to create a space within which a rich and meaningful dialogue could take place on how to better communicate the long-term fiscal challenge to the public. To achieve this kind of dialogue, participants were a select group of individuals drawn not only from budget and policy experts but also from other key groups both in Washington and from “beyond the Beltway.” These included opinion leaders from a variety of sectors. (See app. I for the forum’s agenda and app. II for a list of forum participants.) All brought a commitment to thinking ahead and an eagerness to move beyond defining and measuring “the problem” to discussing how to broaden understanding and dialogue so that action will be both more immediate and more informed.

In particular, the forum sought to identify some possible approaches and strategies that could help elevate the public’s understanding of the long-term fiscal challenge. Forum discussions focused in particular on the roles that media, educators, and leaders elsewhere in society will need to play. In so doing, participants expressed their views on the possible causes of current gaps in public understanding of the long-term fiscal challenge. Participants also made numerous suggestions for what types of approaches and actions might be effective in bridging the gaps. This report summarizes the ideas and themes surfaced at the forum and the collective discussion of

the forum participants as well as subsequent comments received from participants based on a draft of this report.

Convening this forum is but one small step toward elevating public understanding of the challenge and acceptance of the need for change. Ultimately it will take the combined efforts of many individuals and groups over an extended period of time to successfully address the issues. The forum provided a venue for people concerned with the long-term fiscal challenge to talk with each other about their common interest in public dialogue on the issue. One immediate result of the forum has been that groups of participants have gotten together. These collaborations have the potential to leverage the efforts of its individual members in order to increase the likelihood of action on this important issue.

I want to thank all the forum participants for taking the time to share their knowledge, insights, and perspectives. These will be of value to the American people and to their representatives in Congress as they communicate with their constituents about the nation's long-term fiscal imbalance and the challenges and opportunities it raises. We at GAO will also benefit from these insights as we carry out our mission to help Congress examine the fiscal sustainability of today's government spending and tax policies. I am hopeful that the American people will become fully engaged in this long-overdue and much needed national debate as a means to facilitate serious, timely, and sustained action that can help save the future for our country, children, and grandchildren. I look forward to working with the forum's participants on this and other issues of mutual interest and concern in the future.

A handwritten signature in black ink, appearing to read "D. M. Walker", with a horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

The Long-Term Fiscal Challenge and How the Public Perceives It

On December 2, 2004, GAO hosted a forum on the nation's long-term fiscal challenge to discuss

- how to facilitate a national dialogue that recognizes the kinds of choices that are necessary and the need for timely action;
- innovative approaches to conveying the nature, timing, and magnitude of the fiscal challenge;
- possible changes in accounting and reporting that might help to enhance public understanding and promote action;
- changes in the budget process, metrics, or other mechanisms that would help facilitate action; and
- the role the media, educators, and others can play in changing the conversation.

In his charge to the group, the Comptroller General noted that describing the problem to the public presents numerous challenges. For example, estimates of future federal spending and deficits are so large—current long-term federal liabilities, unfunded commitments, and other obligations are estimated at more than \$43 trillion¹—that the numbers are beyond what most people can comprehend or relate to. Translating these numbers into a more human scale—such as “burden per capita”—might be helpful in communicating the magnitude of the challenge. In addition, how we measure the magnitude of the long-term fiscal challenge is complex. For example, tax preferences, such as the exclusion of employer-provided health benefits from individuals' income, are usually not discussed although in some years their value may equal or exceed that of total discretionary spending (e.g., defense, homeland security, transportation, judicial system, education, environment etc.).

¹ This represents the sum of selected fiscal exposures net of certain revenues (e.g., payroll taxes, beneficiary premiums) that fund some of these exposures. These fiscal exposures are shown on slide 6 of the Comptroller General's presentation in appendix III. While this list provides some perspective on the range and magnitude of exposures facing the federal government, it is neither meant to be comprehensive nor to represent a universally agreed-upon list. A broader discussion of fiscal exposures can be found in *Fiscal Exposures: Improving the Budgetary Focus on Long-Term Costs and Uncertainties*, [GAO-03-213](#) (Washington, D. C.: Jan. 24, 2003).

The forum and this report address prospects for leaders to connect with the public on our long-term fiscal challenge. Simply put, the long-term fiscal challenge is that current fiscal policy is unsustainable. As the baby boom generation retires, longevity and rising health care costs mean that federal spending for retirement and health programs—Social Security, Medicare, and Medicaid—will put increasing and ultimately unsustainable pressure on the federal budget. The resulting gap between spending and revenues will be too large to be eliminated by economic growth alone. Absent significant policy changes, a concern exists that a crisis of some kind is likely although no one knows when this point might be reached. Public perception of the long-term fiscal challenge differs from these views in several key respects. At present the public understands that the long-term fiscal challenge is a problem and needs to be addressed but does not see doing this as urgent relative to other national priorities.

Today's Fiscal Policy Is Unsustainable

Comptroller General Walker opened the forum with a presentation entitled “The Long-Term Fiscal Imbalance.” (The full presentation can be found in app. III.) In essence, he said, this forum was about saving our future. Changes in the composition of federal spending over the past several decades have reduced budgetary flexibility, and our current fiscal path will reduce it even further.

A demographic shift will begin to affect the federal budget in 2008 as the first baby boomers are eligible for Social Security benefits. This shift will increase as spending for federal health and retirement programs swells. Long-term commitments² for these and other federal programs will drive a massive imbalance between spending and revenues that cannot be eliminated without tough choices and significant policy changes.

² GAO has used the term *fiscal exposure* to provide a framework to consider the long-term costs and uncertainties of federal commitments and expectations for future federal spending. Fiscal exposures result from federal responsibilities, programs, and activities that may either obligate the government to future spending or simply create an expectation for such spending.

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In the long term, current fiscal policy is unsustainable, and the sooner we change course, the better. GAO³ and the Congressional Budget Office⁴ (CBO) agree that addressing the long-term fiscal challenge will require fundamental changes. These changes could include changes in policies, process, transparency, and enforcement mechanisms. A key question is, “How much time remains before action must be taken?”

In the past several decades, federal budgetary flexibility has decreased. This has happened because spending for mandatory programs⁵ such as Social Security, Medicare, and Medicaid has grown much faster than spending for discretionary programs⁶ such as defense. In 1964, about two-thirds, or 67 percent, of total federal spending was discretionary; in fiscal year 2004, this share had shrunk to about 39 percent.

In fiscal year 2004, the federal budget deficit increased and the long-term outlook worsened significantly. The unified deficit was \$413 billion, or about 3.6 percent of the economy. This deficit includes \$151 billion in Social Security surpluses, without which the deficit would have been that much larger.⁷ Indeed, the on-budget deficit for fiscal year 2004 was \$568 billion, or 4.9 percent of gross domestic product (GDP). Fiscal year 2004’s deficit followed upon several years of increasingly negative federal fiscal outcomes.

³ For the most recent results of GAO’s long-term simulations, see <http://www.gao.gov/special.pubs/longterm/>.

⁴ In December 2003 CBO published a report on the long-term fiscal challenge that included the results of its long-term budget simulations. See CBO, *The Long-Term Budget Outlook* (Washington, D.C.: December 2003).

⁵ Mandatory spending is spending for entitlement programs such as Medicare, veterans’ pensions, payment of interest on the public debt, and certain other programs. Congress controls spending for these programs indirectly, by defining eligibility and by setting benefit or payment rules, rather than directly through the annual appropriations process.

⁶ Discretionary spending is spending that is controlled by Congress through the annual appropriations process.

⁷ The unified budget, which includes all receipts and outlays from federal and trust funds, is comprehensive of the full range of federal activities. Unified budget results are the difference between total federal spending and revenue in a given year. In this report, the term federal budget deficit refers to the unified deficit unless otherwise stated. On-budget totals include all federal receipts and outlays except those for Social Security and the U.S. Postal Service.

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In addition, as the Fiscal Year 2004 Consolidated Financial Statements of the U.S. Government show,⁸ in fiscal year 2004 the federal government added \$13 trillion in new liabilities, unfunded commitments, and other obligations, principally due to the new Medicare prescription drug program.⁹ The federal government's net liabilities, unfunded commitments, and other obligations now amount to more than \$43 trillion, or about \$350,000 for every full-time worker, and these unfunded commitments are growing larger every day.

Looking forward, GAO's long-term budget simulation "Baseline Extended" extrapolates from CBO's 10-year budget estimates to a longer term view.¹⁰ As shown in figure 1, deficits do not appear large until 2030. Some might conclude from this that there is no need to make changes now, but a shift in just two assumptions produces a very different budgetary picture.

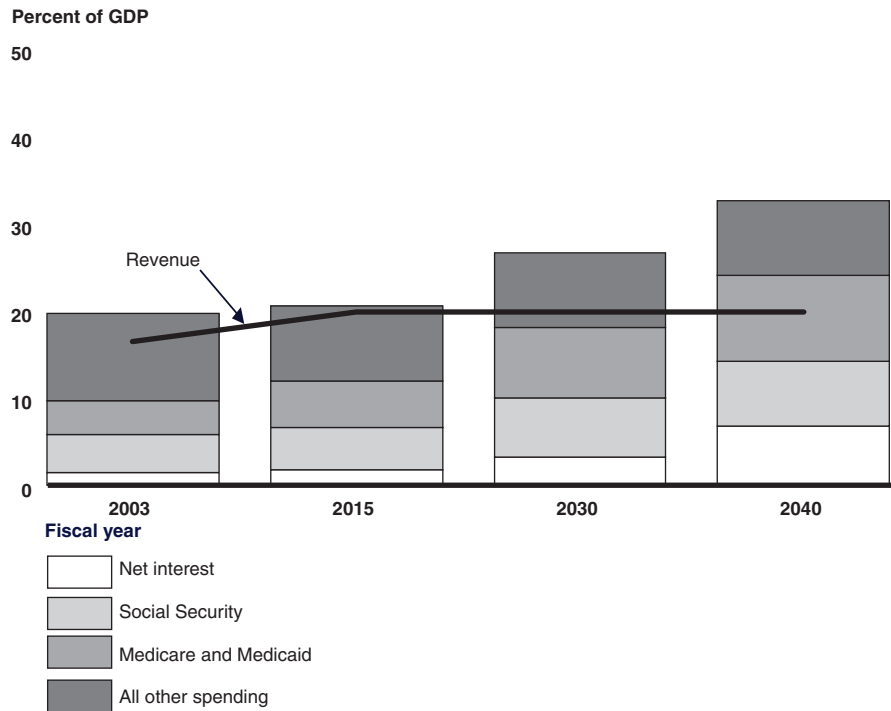
⁸ GAO's audit report on the Consolidated Financial Statements of the United States Government was issued on December 14, 2004, subsequent to the forum.

⁹ Enacted in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (Pub. L. 108-173, 117 Stat. 2066 [Dec. 8, 2003]).

¹⁰ In the "Baseline Extended" simulation, discretionary spending is assumed to grow at the rate of inflation for the first 10 years and then at the rate of economic growth for the rest of the simulation period.

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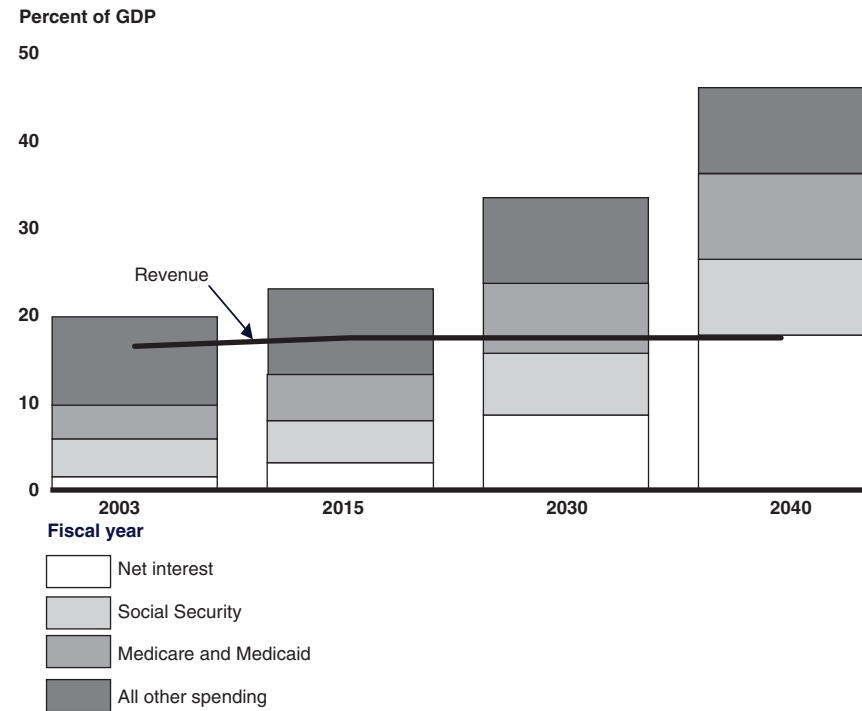
Figure 1: Composition of Spending as a Share of GDP under Baseline Extended



Source: GAO's September 2004 analysis.

If we assume that all tax cuts remain in effect rather than expire as scheduled under current law, and if we further assume that for the first 10 years discretionary spending grows with the economy rather than at the rate of inflation, a dramatically different picture emerges. This simulation is called “Discretionary Spending Grows with the Economy and All Expiring Tax Provisions are Extended.” (See fig. 2.) Under this alternative simulation, by 2040 the government would have only enough money to pay interest on the federal debt!

Figure 2: Discretionary Spending Grows with the Economy and All Expiring Tax Provisions Are Extended



Source: GAO's September 2004 analysis.

Economic growth can help improve the long-term fiscal outlook, but it cannot solve the long-term fiscal problem. A "status quo" fiscal policy is not an option. The sooner we take action, the better. The sooner we act, the sooner the miracle of compound interest can work for us rather than against us.

When Will the Long-Term Fiscal Challenge Begin to Have Impact?

Participants were generally in agreement that, absent action, a crisis would ultimately occur. The only question is when. Some were of the view that events in the near term were likely to be catalysts for change; others were less sure when this might happen.

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Some participants thought that the long-term fiscal challenge would affect the budget very soon. For example, one participant suggested that spending for long-term federal commitments might begin to affect the budget outlook as soon as 2008, the first year in which the oldest members of the baby boom generation would first be eligible to receive Social Security benefits.¹¹ By 2008, some factors that will affect the federal budget include the following.

- The beginning of a long-term downturn in the Social Security cash surplus—the difference between payroll taxes and benefits paid—that will continue in the coming years. As a result of this downturn, less and less cash will be available from payroll tax receipts to finance other activities in the federal budget until eventually outlays exceed receipts.¹²
- Certain tax reductions will be about to expire, e.g., reduced tax rates on dividends and capital gains.
- The Medicare drug benefit will have been fully implemented.

Under CBO's September 2004 baseline estimates, Medicare spending is currently estimated to rise by about 30 percent between 2005 and 2007.

Alternatively, participants suggested that a crisis could be triggered much sooner by events in financial markets. One participant expressed the view that a loss of investor confidence in the long-term prospects for the U.S. economy was more likely to trigger a crisis than any single domestic event. Another participant was of the opinion that this could happen soon: today's large trade deficit (current-account deficit¹³) meant that the budget problem was no longer a long-term problem. Several participants were of the view that concern by financial markets would spark change. These

¹¹ The baby boom generation is defined as those born between 1946 and 1964. The oldest baby boomers will turn 62 in 2008, making them eligible to receive a reduced retirement benefit from Social Security. Labor force growth will begin to slow as the boomers retire. CBO assumes slower economic growth after 2009.

¹² Under the 2004 intermediate estimates of the Social Security Trustees, the cash flow in Social Security is projected to be negative beginning in 2018.

¹³ The current account balance is defined as the combined balances on trade in goods and services, income, and net unilateral current transfers. Technically, the trade surplus/deficit is defined as exports less imports of goods and services. The current account deficit of recent years is often popularly known as the trade deficit.

participants pointed to history: in the 1980s, financial markets' concern about large, persistent federal budget deficits had triggered action on deficit reduction. Another participant expressed the view that markets were currently beginning to demand action on the long-term fiscal challenge and cited the recent fall of the dollar as a possible example.

Other participants were unsure when or how a crisis might occur. One participant commented that the market for long-term bonds does not appear to have reacted to the fiscal outlook. Another participant noted that while today's borrowing from abroad is of a magnitude unprecedented in the post-World War II era, it represents a set of arrangements that are comfortable for all those involved. Capital inflows from abroad—including in the current account deficit—make it possible for Americans to consume more than we produce and for other countries to sell their goods in the United States. This is comfortable both for the United States and for those entities and individuals in other nations who buy U.S. goods and securities, including Treasury securities that finance the federal budget deficit.¹⁴ (See app. IV for a discussion of the relationships between the current account balance, the federal budget and national saving.)

Another participant similarly noted that a smaller nation than the U.S. could not have so large a current account deficit measured as a share of its economy without this leading to a crisis. As a result it was not clear how much longer the U.S. would continue to run large current account deficits, how this would ultimately change, and with what effects.

To avoid a crisis, we will need to save more as a nation—as individuals and through fiscal policy—participants emphasized. Such higher national saving to finance consumption in the future can only be achieved by lowering levels of consumption today. Federal budget deficits are a form of dissaving, and individuals are not saving enough. Participants noted that the effects of federal legislation aimed at increasing personal saving through tax incentives had so far been mixed. Today's culture tends to discount the future, participants noted. What was needed was cultural change.

One participant cited recent television coverage of holiday shoppers breaking down the door of a major retail store early on the morning after

¹⁴ Between 1993 and 2004, the estimated share of publicly held debt held by international investors more than doubled from 19 percent to over 40 percent.

Thanksgiving as an example of today's focus on consumption. This participant added that those shoppers were probably not thinking about the impact of today's consumption on their future well-being and the well-being of future generations. Participants generally agreed that people needed to recognize how choices made today inform the future. This is true of policy choices as well.

Health Care Is the Largest and Perhaps Most Difficult Part of the Long-Term Fiscal Challenge

Participants generally agreed with the Comptroller General's description of the nature, magnitude, and timing of the problem. They shared his sense of urgency about the need to take action soon rather than wait until a crisis occurred. They emphasized several observations on the nature and significance of long-term fiscal challenge.

Health care is a bigger problem than Social Security. Participants acknowledged the need for Social Security reform but emphasized that Social Security is a relatively small part of the long-term fiscal challenge when compared to spending on health care. One participant noted that the estimated Social Security shortfall is about one-third the estimated cost of recent tax cuts if made permanent. Several participants observed that few members of the public are aware of this. Rather, the general public impression is that solving Social Security would solve most of the long-term fiscal challenge, and this is not correct. Indeed, one forum participant stated that it was only by attending this forum that he had learned that health care spending was a much more important, and potentially far more difficult, component of the long-term fiscal challenge than Social Security.

Participants expressed the view that in characterizing the long-term fiscal outlook, several key distinctions needed to be made between Social Security and the largest federal health programs, Medicare and Medicaid. Participants observed that the public was largely unaware that health spending accounted for a much larger share of the long-term fiscal problem than did Social Security.

In addition, many approaches to reforming Social Security have been articulated and were well known. For example, approaches included raising the retirement age, changing the indexation of initial benefits from a wage-based index to an inflation-based index, modifying the tax base, and so on. Many specific proposed solutions had been under discussion for some years. In contrast, many participants expressed the view that approaches to slowing the growth of health care spending remain elusive.

Changes to federal health care programs cannot be made in isolation: Addressing federal health spending will ultimately require restructuring the overall health care system. The long-term fiscal challenge cannot be successfully addressed without addressing its largest component: federal health spending—i.e., for Medicare and Medicaid. Participants expressed the view that federal health spending trends could not be viewed in isolation from the health care system as a whole. One participant explained that Medicare and Medicaid cannot grow over the long term at a slower rate than cost in the rest of the health care system without resulting in a two-tier health care system or squeezing providers who then in turn might seek to recoup costs from other payers elsewhere in the health care system. Rather, in order to address the long-term fiscal challenge, it will be necessary to find approaches that deal with health care cost growth in the overall health care system. Participants agreed that this would be very difficult but essential. The linkages between the long-term fiscal challenge, federal health care programs, and the health care system are not well understood. Educating the public on these linkages is of critical importance.

Participants noted that many sectors of the economy and different levels of government are involved in health care. Cost growth in employer-provided health insurance is raising costs for employers and individuals. Rising health care costs are squeezing the ability of businesses to offer higher salaries that would enable employees to save, one participant said. Such costs are also having significant competitiveness, employment, and revenue implications. In addition to affecting federal spending, Medicaid is a major driver of state spending. “Few things will be harder than restructuring the health care system,” said one participant, but without this restructuring the long-term fiscal challenge cannot be solved.

Participants noted that solutions to health care cost inflation were likely to occur through an incremental process. One participant expressed the view that changing health care involved profound ethical, philosophical, and moral issues. Mr. Walker observed that an earlier Comptroller General Forum on Health Care had called attention to many of the issues raised by participants.¹⁵ The purpose of that forum had been to find ways to elevate the nation’s understanding of health care cost, access, and quality

¹⁵ GAO, *Health Care: Unsustainable Trends Necessitate Comprehensive and Fundamental Reforms to Control Spending and Improve Value*, [GAO-04-793SP](#) (Washington, D. C.: May 2004).

challenges. Participants had noted the need for structural changes in the health care system and the likelihood that these changes would be done on an incremental basis over a considerable period of time. At the same time, we should start now.

Mr. Walker also noted that the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 had established a Citizens' Health Care Working Group. The group will lead a nationwide public debate on ways to improve the health care system to provide every American with the ability to obtain quality and affordable health care coverage. This group is required to hold public hearings over a 2-year time frame in preparation for making recommendations to the President and the Congress. As Comptroller General, Mr. Walker will appoint 14 of the 15 members of the Task Force, including the Chair.

For the Public, the Long-Term Fiscal Challenge Is an Issue, but Not *the* Issue

Nancy Belden, President of the American Association for Public Opinion Research, presented baseline information on what the public knows about the long-term fiscal challenge and how it perceives it. There are two drivers for change—political will and public will, Ms. Belden said. Polling data is important because it can provide information on public will. Her presentation summarized the results of several polls conducted by various polling organizations within the past few years. (See app. V for Ms. Belden's presentation.)

In general, polling data suggests that the public is “worried but not *that* worried” about deficits, Ms. Belden said. Although aware of the long-term fiscal challenge and concerned about it, the public rates the federal budget deficit as of lower priority relative to other issues. In addition, a majority of those polled supported additional spending for highly valued programs over balancing the budget.

The public's attitude toward federal budget deficits in general is complex. About two-thirds of those polled would prefer balancing the budget to cutting taxes, and about half of those polled expect today's deficits to worsen in years to come. At the same time, the deficit is seen as far less prominent than many other issues. These higher-ranked issues include the economy, terrorism, jobs, education, and Iraq. In particular, over half of those polled indicated concern about the future of the economy. Only 4 percent, however, listed the deficit as their biggest concern.

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When presented with choices and trade-offs, the public's attitude is one of "wanting to have its cake and eat it too," Ms. Belden said. On the one hand, more than two-thirds of those polled supported postponing future tax cuts if doing so would prevent further worsening of the deficit. Similarly, about two-thirds of those polled chose balancing the budget over further tax reductions. On the other hand, when presented with a need for new government spending, e.g., for national security, about half of the public thought tax cuts that have been enacted but not yet phased in should be left in place. When asked to choose between balancing the budget and additional spending on education, health care, and economic development, more than half chose the additional spending. From the polling data, it is unclear whether the public sees federal budget deficits as related to the economy.

Because the public holds conflicting attitudes with respect to balancing the budget, and with respect to tax and spending policy, the federal budget deficit is "an issue that cries out for leadership," Ms. Belden said. Leaders need to define for the public the urgency and implications of the long-term fiscal challenge and the cost and implications of inaction. They will need both to develop solutions and persuade the public of the need to enact them.

How Can We Change the Conversation About the Long-Term Fiscal Challenge?

A major theme of the forum was a need for collaborative leadership to change the conversation about our long-term fiscal challenge.

Forum participants explored possible ways to elevate public understanding of the long-term fiscal challenge. Budget experts, media, educators, foundations, and other nonprofit or “good government groups” and others seeking to promote more active and thoughtful engagement by the public would all have roles to play in changing the conversation, but none could substitute for leadership from elected officials and the deliberation process. Leadership would be key, and leaders would need to reach consensus on the types of fiscal policy changes to address the long-term fiscal challenge. However, public understanding of our challenge and support for the need to take actions to address it are likely to be necessary as a precondition for elected officials and other policymakers to act. Budget process reform was seen as one potential tool to support agreements reached and implement needed changes but not as a way to create a consensus on the need for action.

Media Presentations on the Long-Term Fiscal Challenge Need to “Make the Intangible Tangible”

Representatives of national and local media, both print and nonprint, discussed the role of the press with forum participants. Media participants were asked to comment on why the long-term fiscal challenge generally does not get coverage and what kinds of reactions they get when it does.

The main reason cited to explain limited or lack of coverage was that, as one writer put it, “deficits are boring.” Too often, jargon and technical terminology are used in talking about federal budget deficits. This both confuses and intimidates readers. In addition, reducing the deficit is often presented as an end in itself, apparently unrelated to anything in ordinary people’s lives.

When articles on federal budget deficits did get published, media representatives said that many readers did show interest. Reader reactions ranged from very positive to expressions of confusion and requests for more information. These reactions suggested that a wide range of readers needed more information about the long-term fiscal challenge. For example, those requesting clarification and more information included journalists and elected officials at all levels of government—federal, state, and local. One media participant noted that educating local leaders on the issues might be particularly important, for these were our future national leaders.

Some media representatives suggested that there may be a sense in some editorial circles that deficits are especially “boring” for younger people, who increasingly tend to get their news from nonprint sources, such as Internet “blogs”—Web logs, or diaries—and television. Journalists and opinion writers may feel pressure to choose different material more likely to attract younger readers, who are crucial to the future of their publications.

Media representatives and other forum participants suggested that these nonprint media should be explored as ways to get the message to younger people, who will be most affected if the long-term fiscal challenge is not effectively addressed. Television programs that satirize current events and public television were also cited as venues for reaching out to younger people who do not regularly read print media.

Forum participants offered many specific suggestions for how to talk about the long-term fiscal challenge in media presentations. The main message of these suggestions was that presentations need to resonate with ordinary people; otherwise, nothing will change.

Media and other forum participants suggested that presentations should encompass the following.

- **Start with values and emotion.** Values and emotion—not abstractions—should be the starting point in explaining the long-term fiscal challenge. People can only hear messages that fit with their values. If not grounded in people’s values, discussions of the long-term fiscal challenge will not resonate with the public.

Participants agreed that a key moral context is the impact federal budget deficits will have on future generations. Another key moral context is integrity. Some participants called for greater integrity, e.g., transparency, in the federal budget process. Others noted that addressing the long-term fiscal challenge would require sacrifice.

Numbers alone were not useful because they do not evoke an emotional response, one media representative said. In discussing the long-term fiscal challenge, some participants urged a need for more passion, i.e., “fire and brimstone rhetoric.”

- **Make “the intangible tangible.”** Similes and metaphors—not big numbers—can help people understand the long-term fiscal challenge.

Talking about the federal budget using the very big numbers required—millions, billions, and trillions—simply does not compute for most readers, one writer said. Instead, one participant suggested that increasing spending in ways that worsen the long-term fiscal challenge, e.g., the Medicare drug benefit, could be compared to buying a plasma TV for every household in America on credit. Analogies like this could help make the consequences of the long-term fiscal challenge vivid and immediate.

- **Link to “pocketbook” issues.** The federal budget deficit needs to be linked to more concrete policy concerns. For example, one writer emphasized the need to explain how budget deficits are a drag on the economy. Others urged making linkages to the value of the U.S. dollar, to interest rates, to Americans’ ability to buy imported goods. Another suggested approach would be to explain how the long-term fiscal challenge poses risks to future economic growth and the standard of living for Americans. One participant reminded the forum that, as Nancy Belden’s presentation illustrated, the economy is the issue people care about most. Getting people to understand that the long-term fiscal challenge will eventually harm the economy would be one definition of progress.

Another participant characterized the long-term fiscal challenge as a national security issue and suggested a “strategic fiscal reserve” was needed to create greater budgetary flexibility to deal with future unforeseen threats.

- **Use simple language.** Economic terms should be avoided. “Fairness” was a better word to use than “equity.” Participants suggested that one role for experts such as those present at the forum could be to devise new ways to make the long-term fiscal challenge more transparent. When (or if) the crisis came, these experts would be ready to explain it to the public. Corporate scandals such as those concerning Enron and WorldCom were cited as one example of a situation in which experts had played this kind of role.
- **Link to the ongoing squeeze on federal spending.** Presentations need to emphasize the way federal budget deficits will squeeze the ability to fund government programs people care about, such as education and programs for children and families. Within 10 years the entitlement squeeze will dramatically shrink the funds available for other goals, one participant said. Even now, federal agencies’ budgets

and programs people care about such as education are being squeezed in ways people did not expect.

Media representatives told forum participants that the role of the press is to “speak truth to power” but cautioned that the press cannot lead on the issue alone. Leadership will also be needed in other sectors of society—from politicians, nonelected officials, and the business community, for example. Several participants noted that in the 1990s, political leadership had played a key role in triggering and sustaining deficit reduction actions. For example, both Paul Tsongas, who competed with Bill Clinton for the presidential nomination of the Democratic Party in 1992, and Ross Perot, who ran in the 1992 presidential election as an independent, made large and persistent deficits a signature issue. The press has an obligation to take on the long-term fiscal challenge, but as one media representative put it, “the press needs an echo.”

Formal Education Can Play Various Roles in Helping to Elevate Public Understanding

Dan Palazzolo, Associate Professor of Political Science, University of Richmond, and Muriel Siebert, President, Muriel Siebert & Co., discussed some potential roles formal education at the high school and college levels could play based on their respective work in education. At the college and university level, educators needed to lead by preparing young people to understand the long-term fiscal challenge and how it will affect them, and by preparing young people to take leadership roles. At the high school level, financial literacy education can help prepare young adults to understand the long-term fiscal challenge and the impact it can have on their need to plan, save, and invest for their future. Identifying “lessons learned” from past leadership on major national issues is another way educators can play a part in changing the conversation about the long-term fiscal challenge.

Colleges and universities can help educate both the general public and the nation’s future leaders on the long-term fiscal challenge.

Dan Palazzolo, Associate Professor of Political Sciences at the University of Richmond, presented his perspective on the potential for colleges and universities in elevating public awareness of the long-term fiscal challenge. Colleges and universities offer

- **key stakeholders.** Colleges and universities are where many key stakeholders—young people—are to be found. They will be most affected by the long-term fiscal challenge, and the discussion needs to be brought to them.

- **intellectual capital and flexibility.** Colleges and universities are places where new thinking emerges, even if the institutions themselves may be fragmented and knowledge “stovepiped.” Moreover, colleges and universities can play different roles in the conversation about the long-term fiscal challenge. For example, they can provide venues for forums and conferences; they can host discussions.
- **neutrality.** Colleges and universities are perceived as neutral by the communities around them. This perception further heightens the value of these institutions as appropriate places to host discussions that can help elevate public understanding of the long-term fiscal challenge. Professor Palazzolo noted that the Exercise in Hard Choices created by the Committee for a Responsible Federal Budget had been hosted by colleges and universities.¹

Professor Palazzolo discussed the role of colleges and universities in preparing future leaders to lead. A course he is currently developing will analyze the period beginning in 1987 in which leaders made numerous efforts over a period of time that were ultimately successful in reducing large, persistent deficits. To answer the question of whether and how today’s leaders can take on long-term issues, the course will look at how leaders have communicated about these issues in the past.

A key premise of the course is that leadership and change are a process, and we can learn by looking at how the process worked. Deficit reduction in the 1980s and 1990s was achieved by increments, Professor Palazzolo noted. It is important to look at how policymakers focused on solving problems—at the incremental process—rather than seek a single big answer.

Financial literacy education can help prepare young people to understand the long-term fiscal challenge. One role for formal education is to teach young people personal financial literacy: people cannot understand the nation’s finances if they do not understand their own. Muriel Siebert, a financial expert and the first woman to hold a seat on the New York Stock Exchange, described how she had persuaded city educational officials to add a course in financial literacy to the required high school curriculum. Ms. Siebert emphasized the link between basic

¹ The Exercise in Hard Choices is discussed in the next section of this report as one example of a “public engagement” approach.

financial literacy and the long-term fiscal challenge. People need to understand the concept of a household deficit before they can understand the federal budget deficit.

To better prepare young people to manage their money once they became adults, the course, devised by Ms. Siebert's organization, covers such basic aspects of financial literacy as income tax returns, trade-offs between owning and leasing a car, credit, bankruptcy, and what taxes pay for. It also includes coverage of the trade-offs between spending today versus saving for tomorrow.

Today's high school students have a stake in how the long-term fiscal challenge is addressed. If the long-term fiscal challenge is not effectively addressed, they are likely to end up paying the bill. As was noted in the forum discussion on public engagement, high school students have the capacity to understand and discuss the kinds of choices that will need to be made in the federal budget.

Mr. Walker noted that an earlier Comptroller General Forum on financial literacy had focused on the link between financial literacy education and the long-term fiscal challenge.² He called forum participants' attention to an ongoing major national initiative by the American Institute of Certified Public Accountants (AICPA) on financial literacy education.

Public Engagement Offers One Approach to Elevating Public Understanding of the Long-Term Fiscal Challenge

Participants described various types of strategies for involving the public in the debate and how these had been or might be used in the future to increase public understanding of the long-term fiscal challenge.

Participants also explored how "public engagement" approaches might be extended to new venues, e.g., television.

Participants generally saw value in public engagement strategies but expressed various views on how public engagement might be useful and how useful it might be. For example, some participants thought public engagement could best be used as a tool for better understanding public opinion. Other participants saw the values-based dialogue approach used in one form of public engagement as a possible tool to help leaders reach consensus on solutions to the long-term fiscal challenge.

² GAO, *Highlights of a GAO Forum: The Federal Government's Role in Improving Financial Literacy*, GAO-05-93SP (Washington, D. C.: Nov. 15, 2004).

What Is “Public Engagement”?

Public engagement is an approach to elevating the public’s understanding of an issue through a community or group event, e.g., a town hall meeting. It typically focuses on hearing the voices of people usually left out of decision making and seeks to involve them in a dialogue. The aim of public engagement is to build a common understanding of an issue and the need for change and to help people deliberate trade-offs embodied in proposed policy changes. In contrast to public relations, public engagement does not seek to “sell” a solution but rather help a community or group of people work through difficult issues and find areas of agreement. In some forms, public engagement seeks to use the results of its public deliberations to inform policy choices.

Yankelovich-Wooden model of public engagement seeks to create a values-based dialogue about issues. Daniel Yankelovich, Chairman of Public Agenda and Chairman of Viewpoint Learning Inc., and Ruth Wooden, President of Public Agenda, described a new model of public engagement they have developed. (See app. VI for their presentation.)

The Yankelovich-Wooden model seeks to counter public mistrust through dialogue. As was the case in several other periods of American history—for example, the Great Depression and the 1970s—leaders and the public have very different perceptions of governance. Conversation is difficult across this chasm of mistrust, and consensus on needed changes is difficult if not impossible to achieve.

Mr. Yankelovich explained that a values-based dialogue can build a stewardship bridge across the political spectrum and between leaders and the public. Stewardship can be understood as the moral obligation people have to leave things in better shape for those who come after. A dialogue based on the shared value of stewardship can get past the mistrust pervasive in the American political environment. The very process of dialogue creates trust and a sense of ownership. By focusing on common ground instead of differences, a values-based dialogue seeks to counter adversarial approaches. Ultimately, people can better understand and weigh trade-offs in a fact-based, forthright and thoughtful manner, moving beyond public choices based on self-interest.

Mr. Yankelovich and Ms. Wooden noted that a values-based dialogue is not suitable for all issues. Because the model is difficult and expensive to use, it is not appropriate for everyday issues but rather for complex issues where simpler approaches are unlikely to be effective. The model can also be understood as a research tool that can identify trends in public opinion

and effective presentation approaches that can then be used in other settings. For example, research results can be used to develop community initiatives, media presentations, or “meetings in a box”—the capacity for civic organizations to replicate the same meeting in different locations. In contrast to polling and focus groups, dialogue-based research can identify the public’s preferences once the public has gotten past wishful thinking and avoidance of trade-offs.

Examples and other approaches to public engagement. Participants cited several examples of public engagement including projects on which they had worked or with which they were familiar as having elements in common with the Yankelovich-Wooden model of public engagement. Participants viewed these projects as showing that “public engagement is possible.”

- The Great Social Security Debate: organized in 1998 by the Concord Coalition and the American Association of Retired Persons. This project sponsored a series of national discussions on Social Security including then-President Clinton, other elected officials, and policy experts representing a broad range of views.
- Americans Discuss Social Security: a project of AmericaSpeaks in 1998 funded by The Pew Charitable Trusts. Members of the general public, elected officials including then-President Clinton, and key stakeholder groups participated in town meetings that aimed to elevate public understanding of Social Security reform options and give feedback. One finding from the public deliberations was that the public was able to identify some areas of agreement notwithstanding their initial views on the issue.
- A biennial town meeting, a “Citizen Summit” by the Mayor of the District of Columbia, a project by AmericaSpeaks. This gives the general public an opportunity to express views on the trade-offs between different budgetary priorities as outlined in the Mayor’s strategic plan. Views expressed then have impact on the District’s actual budget process.
- The Exercise in Hard Choices: a project by the Committee for a Responsible Federal Budget. The Exercise in Hard Choices (conducted periodically over the last 20 years) is a form of public engagement in which the general public and the local Member of Congress participate in an exercise in mock budgeting. Participants are asked to make trade-offs in the context of specific information on the long-term fiscal

challenge. A key feature of the Exercise is that people with differing views are asked to engage with each other in a dialogue about the kind of budgetary trade-offs that will have to be made if the long-term fiscal challenge is to be addressed. The results of the Exercise show that people easily engaged in the activity and valued the opportunity to interact with people of opposing views. Moreover, the results of the Exercise show that people will make rational and altruistic decisions to solve the long-term fiscal challenge.

The Exercise has also been done with a group of high school students ages 16 through 18. The results of this Exercise showed that young people easily understood the issues involved if not always all the nuances.

- A project on property taxation in New Jersey: a project in 2003 and 2004 by Public Agenda for the Coalition for the Public Good. In this project a group of people selected in various ways came together in a mock-constitutional convention to discuss ways to reform taxation in New Jersey so as to reduce reliance on the property tax. The result of this meeting was a report presenting findings to state officials. Ms. Wooden explained that this report was presented to the state legislature, which recommended convening an actual constitutional convention. New Jersey presently plans to hold a constitutional convention to debate reforming the property tax.

Participants also pointed to other venues that could be used for public engagement in the future. For example, events in public television have been effective in engaging the public on numerous issues, for example Ken Burns' series on the Civil War and Bill Moyers' series on dying.³ One participant described this kind of use for television in the new model of public engagement as a "proxy dialogue." One participant added that "serious games" (following on the Committee for a Responsible Federal Budget "Exercise in Hard Choices" model) were another means that could be used to elevate public understanding of the long-term fiscal challenge both on an individual and collective basis. Such games could be potentially useful in reaching the younger generations who are very computer literate.

³ For example, Bill Moyers' series "On Our Own Terms" was accompanied by a community action campaign aimed at stimulating dialogue and action on issues surrounding end-of-life care.

One participant noted that public engagement and media coverage were complementary. Events that engaged the public could help attract media coverage. For example, Concord Coalition has held grass roots events that have included the Member of Congress for the district in which the event was held, and this has led to media coverage.

Potential uses and limitations of public engagement. Participants proposed several ways the new model of public engagement might help move the nation toward a political environment in which the long-term fiscal challenge could be addressed. Participants generally agreed on the value of the Yankelovich-Wooden model of public engagement as one means to elevate public understanding of the long-term fiscal challenge. They also generally agreed with Ms. Wooden and Mr. Yankelovich that their model could be a valuable research tool for providing leaders with information on public opinion. One participant expressed the view that public engagement could be useful in surfacing key values. Some participants noted that public engagement of the kind described by Ms. Wooden and Mr. Yankelovich could be helpful in identifying a baseline for public understanding and in identifying trends in public opinion.

Other participants cautioned against using public engagement as a way to make policy. One participant noted that polling data can identify trends—they often show how the public is ahead of policymakers—but added that these data are too crude and easy to manipulate to be a useful way of making policy. Some participants thought an expectation that the public should take time from other activities to develop policy solutions was an unreasonable burden. Leaders had the responsibility to develop policy solutions, some participants said.

These participants further suggested that a major barrier in moving forward on the long-term fiscal challenge was not simply a lack of knowledge among the general public but also a lack of consensus among leaders on the nature, extent, and timing of the problem as well as possible solutions. For example, with Social Security, there were clear choices that could be discussed and debated, but participants were generally agreed that this was not true of health care, which accounted for a much larger share of the long-term fiscal challenge. One possible use of the Yankelovich-Wooden model might be to help leaders reach consensus.

Participants pointed to the 1983 reform of Social Security as an example where leaders developed solutions and successfully gained public acceptance for changes that were “outside the comfort zone.” For

example, one participant said that polling data show that people are opposed to raising the retirement age, but this change was included as part of the 1983 reforms to Social Security. In the view of these participants, the role of leaders was to arrive at solutions; a “permissive majority” would then support them.

The Role of Leaders in Changing the Conversation and Addressing the Long-Term Fiscal Challenge

Regardless of their view on the appropriate form of public dialogue, participants agreed on the importance of public understanding and support for change; they also stressed that leadership would be essential to changing the conversation and moving the nation forward to solutions to the long-term fiscal challenge. Leadership would be needed from many sectors of society but most importantly from elected officials.

Participants discussed how the budget process could serve as a tool available to leaders to help change the conversation about federal budgeting and to promote fiscal discipline. Participants generally agreed that incorporating a longer term perspective into federal budget decision making could help promote stewardship and intergenerational fairness. Participants suggested several approaches to doing this and identified possible concerns.

More generally, participants observed that addressing the long-term fiscal challenge will require many actions over an extended period of time. Changing the conversation is the first step, but much work will remain to develop and implement solutions. Participants emphasized that the long-term fiscal challenge is large and complex. Health care is a key driver, and solutions that can reduce health care cost growth and gain consensus remain elusive. An iterative process will be needed, and progress will take time, but the sooner we start, the less wrenching needed changes will have to be.

Leadership Will Be Needed in Many Sectors of Society

A theme throughout forum discussions was that participants saw a need for leadership by many different sectors of society—from the White House to “beyond the Beltway.” Media representatives noted that the press cannot be expected to change the conversation alone. The current “vacuum” in the discussion must be filled by others, including members of the business community, educators, foundations, budget experts, and—most importantly—elected officials.

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One participant expressed the view that the role of elected officials was to move the nation towards solutions, and this would require deliberation, reconciliation, and increased transparency. This participant noted that Members of Congress engage with the public virtually every week when they talk with their constituents, and this was one form of “public engagement.” Budget experts could help elected officials by giving them clearer, simpler language with which to describe the long-term fiscal challenge, why it matters, and the range of options to address it, this participant suggested. This would go a long way toward changing the conversation and moving the nation forward.

This participant added that the dialogue and deliberation that occurs within Congress is what matters. The congressional deliberative process is an “incredibly important” means for the exchange of ideas. Another participant agreed, noting that public debate and the media are important, but they are no substitute for congressional deliberation.

Participants generally agreed that leadership would also be needed from elected officials at the state and local level. Participants noted that state and local officials would be directly affected by burgeoning federal deficits. One participant further noted that it was especially important that state and local leaders understand the long-term fiscal challenge, for some were future leaders at the federal level.

Some participants saw a need for a charismatic leader who could dramatize the issue and focus public attention. By connecting with the public on an emotional level, a charismatic leader can overcome mistrust and gain public support for change. These participants cited Ross Perot’s calls for deficit reduction in the early 1990s.

Taken together, participants’ comments indicated that leadership would have to be a shared burden. For example, in his presentation Professor Palazzolo noted that he has made frequent use of work done at think tanks and by organizations such as GAO on the long-term fiscal challenge. He called for tighter relationships going forward between academia and these types of organizations.

Budget Process Can Enable Leaders to Make Hard Choices

Participants' discussions throughout the forum touched on what kinds of tools leaders would need and the flexibility they would need to move the nation forward on the long-term fiscal challenge. Several former CBO Directors and other forum participants pointed to budget process mechanisms as one such tool that in the past has helped to enforce fiscal discipline. In addition, budget process mechanisms can enable leaders to make hard choices. For example, a budget process can support leaders in efforts to take early action. Budget process is about changing behaviors; it is about changing the incentives for policymakers as they make tough budget decisions.

In discussing possible budget process reforms, participants generally agreed on a need for incorporating greater transparency about the federal government's current financial condition and the costs of long-term financial commitments (both on the spending and revenue sides of the budget). The challenge is in the specifics of achieving this goal. Many participants put forward various approaches and many specific suggestions while others raised concerns about the approaches.

Three former CBO Directors—Alice Rivlin, Rudy Penner, and Edward Gramlich—led a discussion on the role of the budget process in the long-term fiscal challenge.⁴ They agreed that one role of the budget process was to enforce an already existing consensus among policymakers about budgetary decisions. They concurred with a statement made some years ago by Rudy Penner that “the [budget] process isn't the problem, the [budget] problem is the problem.” Political will was more important than any process. Process cannot force consensus but if consensus on budgetary goals is reached, budget process changes can be designed to facilitate choices for fiscal discipline. As one former CBO Director put it, if there is no agreement on the nature of the budget problem, then no process will help.

The former CBO Directors also agreed, however, that “process matters.” They agreed that budget mechanisms such as those enacted in the Budget Enforcement Act (BEA) of 1990 had played a major part in sustaining fiscal discipline over a period of time. One former CBO Director explained that

⁴ Alice Rivlin was the Founding Director of CBO, serving from 1975 through 1983. Rudy Penner was CBO Director from 1983 through 1987. Edward Gramlich served as Acting Director of CBO in 1987.

these mechanisms had been effective in part because they had focused on behavior vis-à-vis the annual appropriations (discretionary caps) and proposed changes to mandatory programs or tax policy (the “PAYGO” requirement that meant Congress had to find offsets for any increases to mandatory spending or reductions to revenue). BEA’s focus on actions contrasted with the imposition of aggregate deficit limits, which fail to distinguish between the results of action and the results of outside fiscal shocks such as recession.⁵ This focus on action facilitated enforcement.

Participants generally agreed with the former CBO Directors both that budget process changes should not be viewed as a panacea and also that the specifics of the budget process were important. Specifically, many participants suggested that greater transparency about the long term needed to be incorporated into the budget process.

Participants generally agreed that greater transparency was needed about the nation’s fiscal outlook. Some participants characterized this need in terms of moral values. Greater transparency would be one means to reflect the value of stewardship in the budget process; greater transparency about long-term costs would promote an intergenerational perspective in budget decision making. Mechanisms that would promote greater transparency would increase the integrity of the budget process, some participants noted. Some participants suggested various approaches to making the long-term costs of proposed legislative change more transparent, but other participants raised concerns about suggested approaches.

Many participants expressed support in principle for reinstating mechanisms like the BEA discretionary caps and PAYGO, but some questioned whether these types of mechanisms would fit in today’s environment and if so, how effective they would be. For example, some participants pointed to ongoing needs for defense and homeland security spending in discretionary appropriations as creating a very different set of circumstances than in the 1990s when policymakers could take advantage of a “peace dividend.” Some participants saw a need for reinstating a PAYGO requirement while others did not foresee changes in the near future to mandatory spending or tax policy. Another participant expressed support for reinstating PAYGO on the grounds it would constitute a

⁵ One former CBO Director observed that in practice, aggregate limits, for example, as embodied in the 1985 Gramm-Rudman-Hollings legislation or in the European Union’s Stability and Growth Pact, were difficult if not impossible to enforce.

“speed bump” but noted that applying PAYGO to both spending and revenue was controversial.

Participants put forward several types of budget process changes aimed at increasing transparency about the long term. Some suggested that CBO scoring⁶ should make clear to policymakers whether a given legislative proposal would make the long-term fiscal outlook better or worse. One participant called for an “intergenerational PAYGO” process in federal budgeting that would require CBO to score the intergenerational consequences of a bill.

One suggestion was to require CBO to prepare a supplementary estimate in present value terms for the cost of major spending and tax legislative proposals over a longer time frame, e.g., 75 years.⁷ This kind of estimate would summarize the net of all estimated future costs and savings in today’s dollars (present value) using a specific discount (interest) rate for the chosen time frame. This would be a supplement to, rather than a substitute for, current and other potential budget-related information.

Participants saw both advantages and risks in present value scoring. A present value estimate would make information on the long-term costs of legislative proposals available to policymakers as they deliberated legislative changes. For example, costs that would be incurred beyond the projection window would be more transparent. However, present value estimates are sensitive to such assumptions as discount rates, which could make this type of estimate vulnerable to gaming. In addition, by its very nature, present value removes timing from an estimate, but sometimes the timing and path of spending and revenues is important. For example, such estimates would be more important for items where the “cost” escalates after the customary cost projection period.

One participant expressed the view that a temptation would exist to make heroic assumptions of long-term savings as a way to counter near-term costs. This participant cited a proposal that reduced federal spending for

⁶ CBO is required to present year-by-year estimates in nominal dollars for a proposal’s budgetary effects over a time frame of 5 years or more, and these estimates (scoring) are customarily used in the congressional budget process.

⁷ In essence, a present value estimate can be understood as the amount of money that would need to be invested today at a given discount rate in order to pay for the legislative change over the time frame.

military retirement in the out-years. The proposal was enacted but the provisions that would have yielded savings were repealed before they took effect. A present value estimate of that proposal would have booked long-term savings that were never realized. A second participant supported the present value approach but added that it would be difficult to build political risk into the discount rate chosen for the calculation. This participant suggested viewing present value estimates as instructive, but not definitive. As an alternative, one participant suggested requiring CBO to show the additional interest costs incurred over the 10-year window that would result from enacting a given legislative proposal.

Participants held divergent views about the use of present value estimates for Social Security reform proposals as a supplement to customary estimates. Reform proposals such as those with individual accounts may raise short-term costs in order to reduce long-term obligations, some participants noted. In such cases, a present value estimate may show the reform change as beneficial relative to a baseline over a long time frame, but the estimate will not show the higher spending needed in the short term. One participant favored this type of estimate, noting that it involves converting the future Social Security debt implied by current-law promises into explicit debt. Another participant expressed the view that in practice this conversion of a federal commitment (i.e., an expectation of future spending) into an explicit liability could have the effect of making future program changes more difficult. A third participant agreed that the use of present value estimates for Social Security reform proposals presented an opportunity and a risk.

One participant pointed to an example of budget process change from abroad that might help change the conversation about the long-term fiscal challenge. This change involves preparing a “pre-budget” report showing how aggregate budget totals link to the macroeconomy, not to programs. Countries including the United Kingdom had found this simple reform was an effective way to change the conversation and prompt debate, this participant said.

One participant suggested applying provisions of the Sarbanes-Oxley legislation, which sought to improve accounting for private business operations, to the federal government as one approach to increasing the integrity of the federal budget process. Another participant noted that the legislation requires the chief executive officer of a private firm to certify its financial statements, but it was not clear who in the federal government

should do this. The President was the logical choice, but this could raise constitutional issues.

Mr. Walker called attention to the fact that Sarbanes-Oxley sought to remedy deficiencies in financial reporting, not budgeting. He added that the Federal Accounting Standards Advisory Board (FASAB) is currently considering how the intergenerational aspects of the federal government's existing policies and programs could be better presented in the U.S. Consolidated Financial Statements.

Finally, some participants noted that health care spending—the largest component of the long-term fiscal challenge—would be particularly difficult to address through budget process changes. One participant also questioned how present value scoring would work in evaluating proposed changes to Medicare. Since perpetual spending growth is clearly unsustainable—at some point Medicare spending would absorb the entire economy—current estimates assume an eventual slowdown that is contrary to historical experience. The timing and rate of this slowdown, in the view of this participant, are essentially arbitrary. This participant suggested having a 60-vote point of order against any legislative change that would increase federal health spending, thereby “making an infinitely large number larger.”

Another participant noted that last year when the Medicare Trustees Report was published, media reports focused on the deterioration of the financial condition of the Hospital Insurance (HI) trust fund as measured by the estimated exhaustion date of the fund.⁸ The Office of Management and Budget (OMB), CBO, and GAO have all noted that this focus can be viewed as misplaced. This participant noted that a more important change between the 2003 and 2004 Trustees' estimates of future Medicare spending concerned the increase due to the drug benefit enacted in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which added \$8.1 trillion to new federal commitments. However, the financial condition of HI gets attention because of the focus on trust fund solvency. At the same time, the signal provided by future trust fund exhaustion, however, does get attention and can serve to promote fiscal discipline in

⁸ The 2004 Medicare Trustees Report stated that the projected exhaustion date for the HI Trust Fund had moved to 2019 from 2026 in the previous year's estimate. The HI trust fund pays for inpatient hospital stays, skilled nursing care, hospice, and certain home health services.

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the HI part of Medicare. This participant further noted that no similar signaling mechanism existed for the nonhospital portion of Medicare, which is funded by the Supplementary Medical Insurance (SMI) trust fund.⁹

Some participants suggested the budget process itself needed broader institutional reform. The process needs greater integrity, it needs to set priorities, and it needs to incorporate a sense of intergenerational equity, which is a key value for the public. Institutional reform was needed to restore credibility to the budget process. One participant characterized the current budget process as one of “gridlock”; as a result, Congress has no time for oversight. Biennial budgeting¹⁰ might be one approach to making oversight possible again, this participant suggested.

⁹ The SMI trust fund pays for physician and outpatient hospital services, diagnostic tests, and certain other medical services and supplies. The Medicare drug benefit enacted in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and scheduled to begin in 2006 will be funded by an account in the SMI trust fund.

¹⁰ Under this reform, appropriations bills would be enacted every other year, with the idea that authorizing committees would conduct oversight and review in the alternate years.

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Federal Trust Funds

Many forum participants noted that federal trust fund accounting is confusing and misleading, creating serious transparency and integrity issues in connection with financial reporting and budget matters. For example, the amount the federal government owes a trust fund is not considered a liability of the federal government under current federal accounting standards because it is a claim of one part of the government against another.

Unlike a private trust fund manager, the federal government both owns the assets of most trust funds and can, through legislation, raise or lower fund collections or payments, or alter the purposes of the trust fund. Also unlike a private trust fund, which can set aside money for the future, federal trust funds are simply budget and accounting mechanisms for the budget as a whole. They record receipts and expenditures earmarked for specific purposes.

When a federal trust fund such as the Old-Age and Survivors Disability Insurance (OASDI) trust funds for Social Security or the Medicare HI trust fund runs a surplus of payroll tax revenues over benefit payments, that surplus is invested in special, nonmarketable U.S. Treasury securities that are guaranteed for principal and interest by the full faith and credit of the U.S. government, and the cash is used to meet current needs of the government. When a federal trust fund runs a cash deficit, as the HI trust fund did between 1992 and 1998 and again in 2004, it redeems these securities to pay benefit costs that exceed current payroll tax receipts. However, in order to redeem these securities, the government as a whole must come up with cash by increasing taxes, lower spending, increased borrowing from the public, retiring less debt (if the total unified budget is in surplus), or some combination thereof.

While the special Treasury securities in a trust fund do not have any current effect on the economy, they do have legal implications for the trust fund's capacity to pay benefits. Projections of trust fund exhaustion may receive media attention because projected trust fund exhaustion has historically been perceived as the primary action-forcing event. An exclusive focus on these projections, however, misses the point. From a macro perspective, the critical question is not how much a trust fund has in assets but whether the government as a whole has the economic capacity to finance the trust fund's claims to pay benefits both now and in the future and at what cost as it relates to other competing claims for scarce resources.

While projections of trust fund balances provide information on program solvency, they do not provide information on sustainability, that is, the capacity of the budget and the economy to pay benefits. In some cases trust funds may provide a vital signal of imbalances in the long term. A shortfall between the long-term projected fund balance and projected costs can signal that the fund, either by design or because of changes in circumstances, is collecting insufficient monies to finance future payments. This signaling device can eventually prompt policymakers to action. Trust funds for payroll tax-funded programs such as Social Security and Medicare HI can serve as a signal to policymakers in this way.

In other cases, the trust fund mechanism may provide no warning signals. For example, unlike the OASDI and HI trust funds, Medicare's SMI trust fund is financed not by payroll tax revenues but by a combination of beneficiary premiums and general revenue. Under the legislative formulas governing SMI financing, the SMI trust fund can never be exhausted because general revenue will always fill the gap between payments and premium revenues.

As a result, there is no signal or "speed bump" provided by the trust fund mechanism for SMI. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 included a provision that focuses on monitoring the share of total Medicare spending financed by general revenues. Under certain circumstances, the Medicare Trustees are required to warn the President and Congress if the general revenue share is projected to be above a certain level. Where this is the case, the President is required to make a legislative proposal to address "excess general revenue" in Medicare, and Congress must consider the proposal.

The Way Forward: A Process Needs to Be Put in Place to Address the Long-Term Fiscal Challenge

Taken together, participants' comments throughout the forum suggested that efforts to address the long-term fiscal challenge will need to proceed in discrete steps rather than as a single or one-step solution. Time will be needed to change the conversation about the long-term fiscal challenge. The disconnect between public perceptions of the challenge and the risk it poses to the nation and Americans in the future will need to be bridged. Leadership from many sectors of society will be needed to start the process of addressing the challenge.

As many participants observed, contrary to public perceptions, health care is the biggest driver of the long-term fiscal challenge while Social Security is a relatively small part. For example, one participant noted that while Social Security in its current form will grow from 4.3 percent of GDP today to 6.6 percent in 2075, Medicare's burden on the economy will quintuple—from 2.7 percent to 13.3 percent of the economy.¹ Social Security also differs from health care in that many specific solutions have already been articulated for program reform. For that reason, in the words of one participant, it might be easier to begin with Social Security since it should be possible to bring groups together to discuss and agree on Social Security, it could be a "confidence builder."

Once Social Security has been reformed in a way that improves the long term fiscal outlook, the nation can turn its attention to the more difficult problem of escalating health care costs, some participants noted. Addressing federal programs such as Medicare and the federal-state Medicaid program will need to involve change in the health care system of which they are a part—not just within federal programs. This will be a societal challenge that will affect all age groups. Because health care is so complex, solutions to health care cost growth are likely to be incremental and require extensive efforts over time.

In discussions throughout the forum, many participants drew on history for lessons that can help us move forward. Citing events from the 1980s and 1990s in support of their views, participants seemed agreed that further study of this history had the potential to yield useful lessons for the future.

While participants did not know when a failure to address the long-term fiscal challenge might turn into a crisis, they were agreed that the time to begin is now. One participant called for the establishment of a working

¹ Under the Social Security Trustees' 2004 intermediate estimates.

Section 3
The Way Forward: A Process Needs to Be Put
in Place to Address the Long-Term Fiscal
Challenge

group that would build on forum discussions, for example, by developing a media strategy and doing outreach to various publics.

Participants emphasized the need in these efforts to “link the long term to the here and now.” The costs of waiting need to be made more transparent to the public. One approach would be to sketch out the kinds of potential “hard landings” for the federal budget, the economy, and the nation that will result if the long-term fiscal challenge is not effectively addressed. As the budget squeeze tightens in coming years, leaders and the public will increasingly be confronted by the need to make trade-offs.

This forum built on other meetings on the long-term fiscal challenge by moving beyond problem definition to a search for new ways to prompt and inform a much-needed national debate.

In bringing their professional expertise and perspectives to bear on how to better communicate the long-term fiscal challenge to the public, participants expressed a shared concern that the stakes of this endeavor are high. Building support for addressing these issues is a daunting, but critically important, challenge—one that will entail the involvement of a wide range of stakeholders, professionals, and leaders at all levels of our society throughout the nation. Budget experts and groups both in and outside of government will be essential to sustaining information and momentum, but clearly the circle of engagement and language of debate needs to be broadened for timely action and change to occur. The issues raised by the long-term fiscal challenge are issues of significance that affect every American. As the forum ended, a number of participants agreed to get together in the future to continue efforts at public education and public engagement to elevate understanding of the long-term fiscal challenge and what it will mean for both individuals and the nation.

Forum Agenda

The Long-term Fiscal Challenge

Thursday, December 2, 2004

Agenda

- 8:30 Coffee, continental breakfast
- 8:45 David M. Walker, Comptroller General of the United States
Opening: Welcome, Charge to the Group, Overview—Presentation, Reactions & Interaction
- Doug Holtz-Eakin, Director, CBO, and others
- Nancy Belden, American Association for Public Opinion Research, will present some baseline information on what the public knows & how it sees the long-term fiscal challenge.
- 9:15 The Press and Other Media
David Wessel, *Wall Street Journal*, Steve Winn, *Kansas City Star*, and Walter Shapiro, *USA Today*, will lead off a discussion on why this issue generally doesn't get coverage and the reactions they get when it does.
- 10:15 Break
- 10:30 Changing the Conversation
Daniel Yankelovich, Viewpoint Learning, and Ruth Wooden, Public Agenda, will kick off a discussion of how to involve the public(s) and decision makers in a conversation that moves us forward. The discussion could deal with questions such as:
- How could the nation be moved toward a dialogue recognizing the kinds and types of choices that will be needed and why they are needed now?
 - Where/how do we start to change the conversation? What kind of processes can work? How can the conversation be structured to reach across groups—the elderly, young workers, labor, business?

How can the issues be presented so the problem doesn't feel overwhelming or insoluble?

- What are some innovative approaches to conveying the nature and magnitude of the challenge and opening up the public's window so they see the relationship between today's decisions and the crisis/problems of tomorrow? What "metrics" work for communicating?
- What is the role of the media?

The aim is to identify types of change processes and media strategies that can lead to new public judgments on the issues.

11:45

Break—Pick up Lunch

12:00

Working Lunch: What changes in the budget process would help facilitate action? Is the role of the process to shape the debate, to enforce decisions, to drive decisions, to "protect" decision makers?

Former CBO Directors Alice Rivlin, Rudy Penner, and Ned Gramlich will kick off this discussion.

1:00

Break

1:15

Formal Education: High School and College

Muriel Siebert, President, Muriel Siebert & Co., and Dan Palazzolo, Associate Professor of Political Science, University of Richmond, will lead off a discussion on the potential role of formal education in changing the conversation.

2:00

Wrap-up

What have we learned? Where do we go from here? What are the next steps?

2:30

Adjourn

Forum Participants

The Long-Term Fiscal
Challenge

Thursday, December 2, 2004

Moderator

David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office

Participants

David M. Abshire
President, Center for the Study of the Presidency
President, Richard Lounsbery Foundation

Joseph Applebaum
Chief Actuary, U.S. Government Accountability Office

Nancy Belden
Partner, Belden Russonello & Stewart
President, American Association for Public Opinion Research

Robert Bixby
Executive Director, The Concord Coalition

Jón R. Blöndal
Deputy Head, Budgeting and Management Division
Organization for Economic Cooperation and Development (OECD)

Joshua Bolten
Director, Office of Management and Budget

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Executive Producer, Moneywise PBS Series

Karlyn Bowman
Resident Fellow, American Enterprise Institute

Charles A. Bowsler
Retired Comptroller General—GAO

Stuart Butler
The Heritage Foundation

David Certner
Director of Federal Affairs, AARP

Timothy B. Clark
Editor and President, *Government Executive Magazine*

Stan Collender
Managing Director, Financial Dynamics

G. Edward DeSeve
National Academy of Public Administration

James C. “Chip” Di Paula, Jr.
Secretary, Maryland Department of Budget & Management

Gene Dodaro
Chief Operating Officer
U.S. Government Accountability Office

Bill Dudley
Chief U.S. Economist, Goldman Sachs

Chris Edwards
Director of Tax Policy, Cato Institute

Cindy Fagnoni
Managing Director, Education, Workforce, and Income Security
U.S. Government Accountability Office

Scott Farrow
Chief Economist, U.S. Government Accountability Office

Peter R. Fisher
Managing Director, BlackRock

Mark Funkhouser
City Auditor, Kansas City, Missouri

Edward M. Gramlich
Federal Reserve Board

Bob Greenstein
Executive Director, Center on Budget and Policy Priorities

John Hamre
President, Center for Strategic and International Studies

Sallyanne Harper
Chief Administrative Officer and Chief Financial Officer
U.S. Government Accountability Office

Bill Hoagland
Senior Advisor to the Senate Majority Leader

Douglas Holtz-Eakin
Director, Congressional Budget Office

Susan Irving
Director, Federal Budget Analysis
U.S. Government Accountability Office

Richard Jackson
Senior Fellow and Director, Global Aging Initiative
Center for Strategic and International Studies

Thomas Kahn
Minority Staff Director, House Budget Committee

Marjorie Kanof
Managing Director, Health Care
U.S. Government Accountability Office

C. Morgan Kinghorn
President, National Academy of Public Administration

Nancy Kingsbury
Managing Director, Applied Research and Methods
U.S. Government Accountability Office

Charles Kolb
President, Committee for Economic Development

Ed Lorenzen

Executive Director, Centrists.Org

Carolyn J. Lukensmeyer, Ph.D.

President and Founder, AmericaSpeaks

Maya MacGuineas

President, Committee for a Responsible Federal Budget

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Associate Professor of Political Science, University of Richmond

John L. Palmer

Professor, Syracuse University
Public Trustee for Medicare and Social Security

Rudy Penner

Senior Fellow, The Urban Institute

Tim Penny

Senior Fellow, Hubert H. Humphrey Institute of Public Affairs

Peter G. Peterson

Chairman, The Blackstone Group

Paul L. Posner

Managing Director, Federal Budget and Intergovernmental Relations
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Alice M. Rivlin

Senior Fellow, Brookings Institution

Walter Shapiro

Columnist, *USA Today*

Muriel Siebert

President, Muriel Siebert & Co.

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Susan Tanaka

Independent Consultant

Sheila A. Weinberg

Founder & CEO, Institute for Truth in Accounting

David Wessel

Deputy Bureau Chief, Washington Bureau
The Wall Street Journal

Steve Winn

Deputy Editorial Page Editor, *The Kansas City Star*

Ruth Wooden

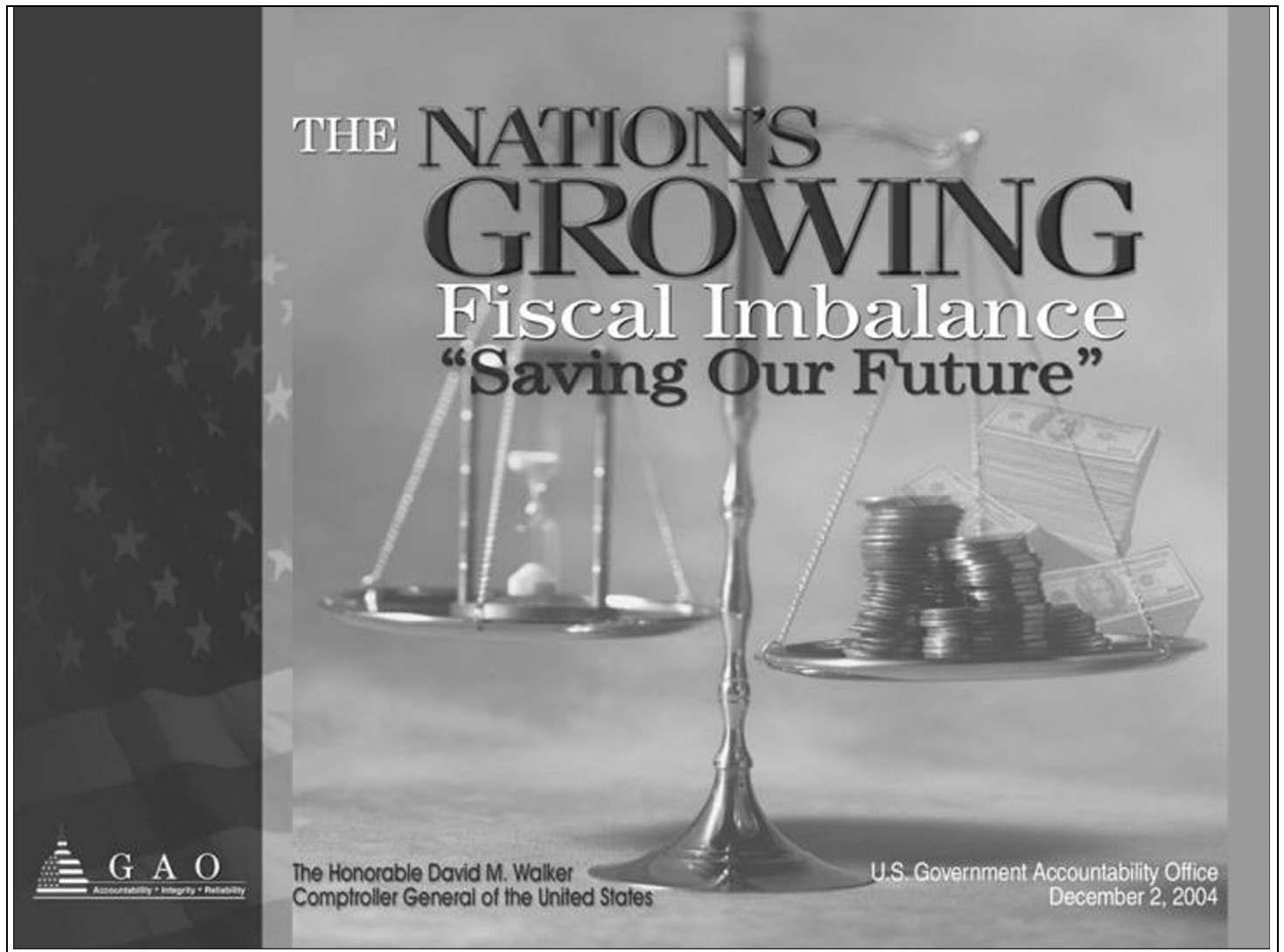
President, Public Agenda

Appendix II
Forum Participants

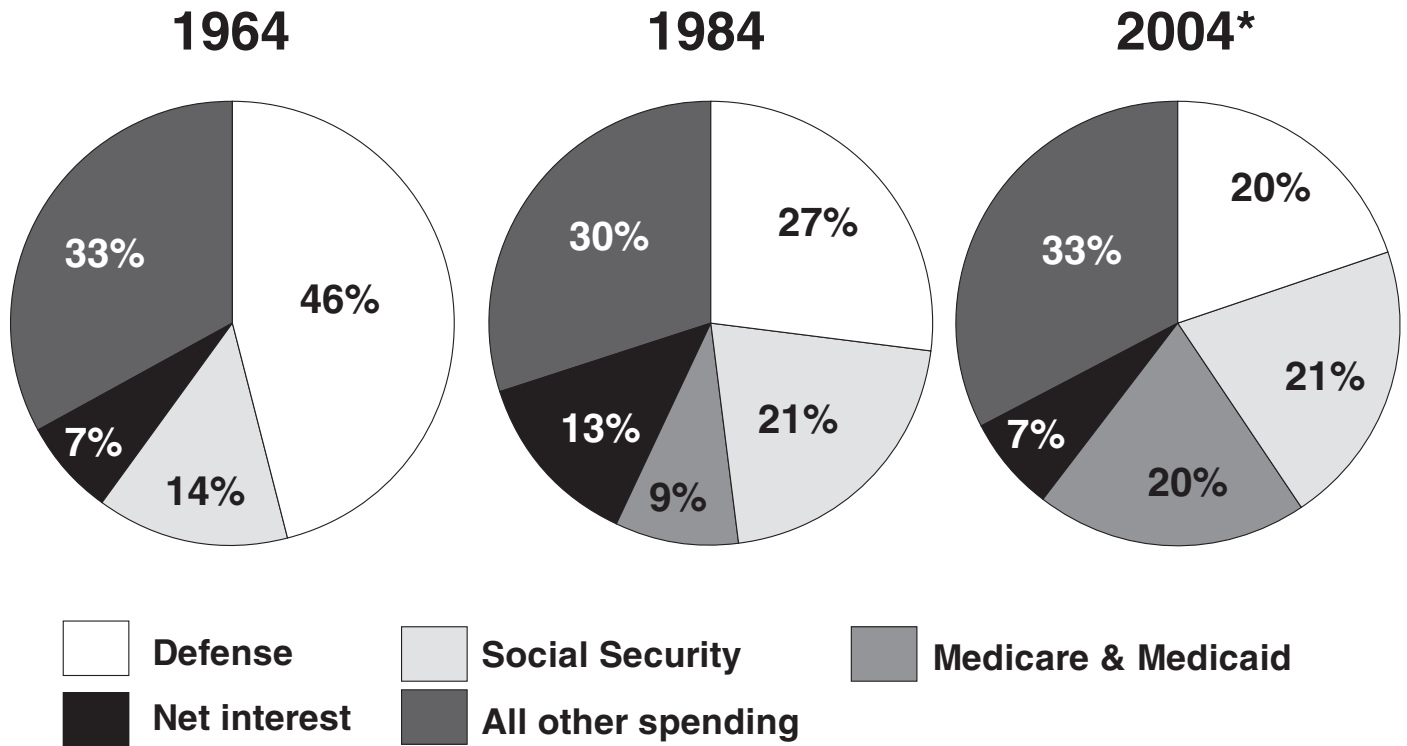
Paul A. Volcker

Dan Yankelovich
Chairman, Viewpoint Learning
Chairman, Public Agenda

The Nation's Growing Fiscal Imbalance: "Saving Our Future"



Composition of Federal Spending

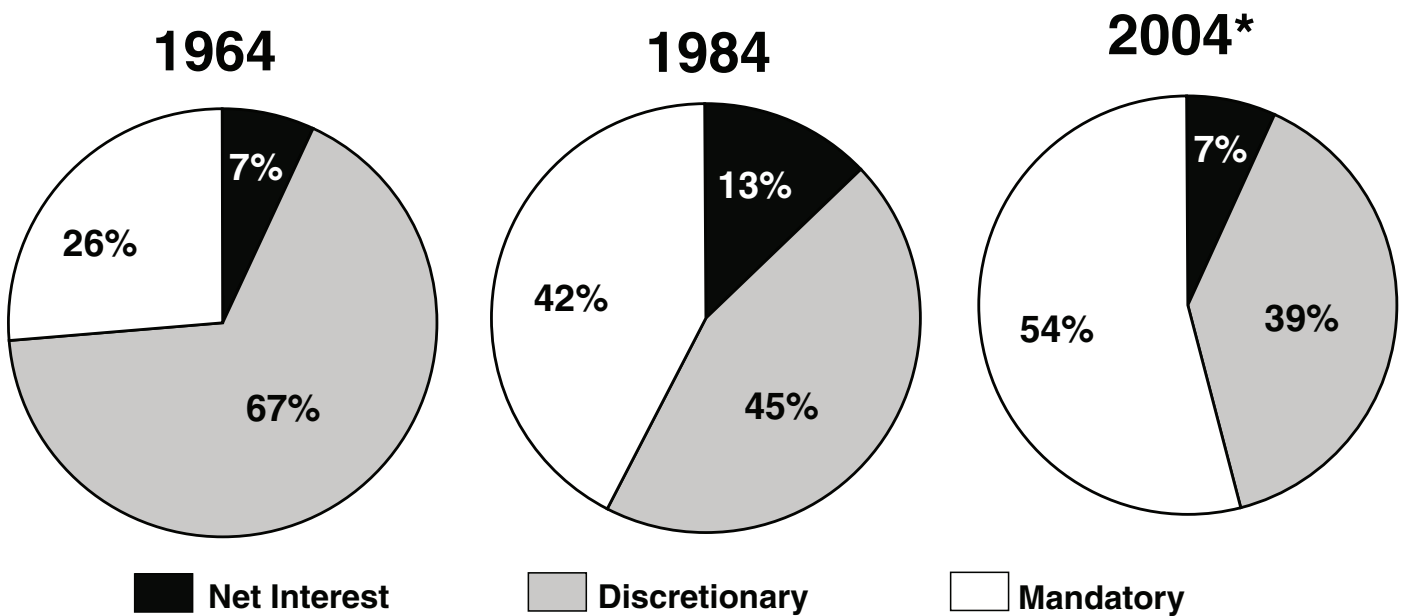


*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs



*Current services estimate.

Note: Numbers may not add to 100 percent due to rounding.

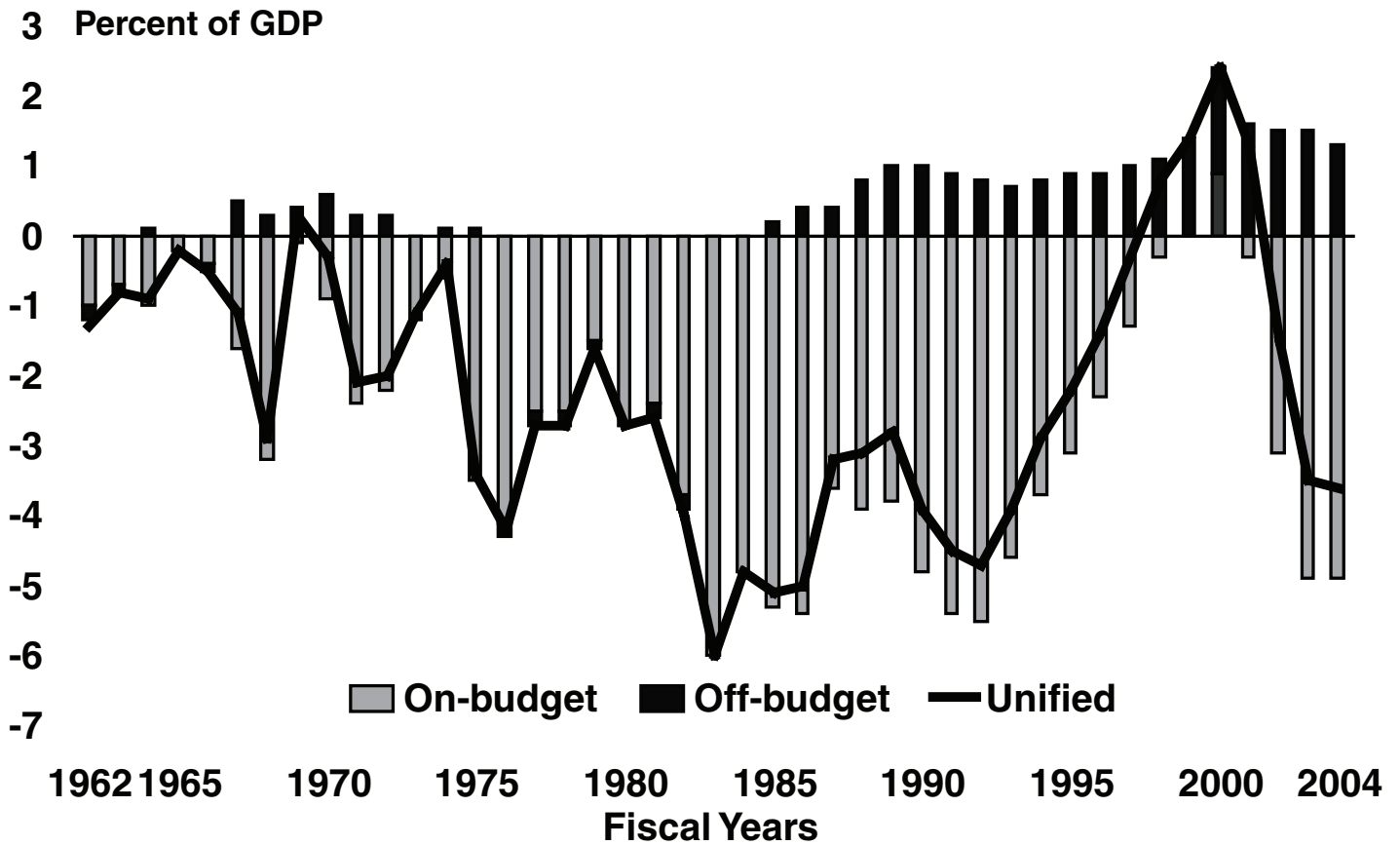
Source: *Budget of the United States Government, Fiscal Year 2005* (February 2004) and *Budget of the United States Government, Fiscal Year 2005, Mid-session Review* (July 2004), Office of Management and Budget.

Fiscal Year 2004 Deficit Numbers

	\$ Billion	% of GDP
On-Budget Deficit	(568)	(4.9)
Social Security Surplus	151	1.3
Unified Deficit	(413)	(3.6)

Surplus or Deficit as a Share of GDP

Fiscal Years 1962 -2004



Source: Office of Management and Budget and Congressional Budget Office.

Selected Fiscal Exposures: Sources and Examples (End of 2003)^a

Type	Example (dollars in billions)
Explicit Liabilities	Publicly held debt (\$3,913) Military and civilian pension and post-retirement health (\$2,857) Veterans benefits payable (\$955) Environmental and disposal liabilities (\$250) Loan guarantees (\$35)
Explicit Financial commitments	Undelivered orders (\$596) Long-term leases (\$47)
Financial contingencies	Unadjudicated claims (\$9) Pension Benefit Guaranty Corporation (\$86) Other national insurance programs (\$7) Government corporations e.g., Ginnie Mae
Exposures implied by current policies or the public's expectations about the role of government	Debt held by government accounts (\$2,859) ^b Future Social Security benefit payments (\$3,699) ^c Future Medicare Part A benefit payments (\$8,236) ^c Future Medicare Part B benefit payments (\$11,416) ^c Future Medicare Part D benefit payments (\$8,119) ^c Life cycle cost including deferred and future maintenance and operating costs (amount unknown) Government Sponsored Enterprises e.g., Fannie Mae and Freddie Mac

^a All figures are for end of fiscal year 2003, except Social Security and Medicare estimates, which are end of calendar year 2003.

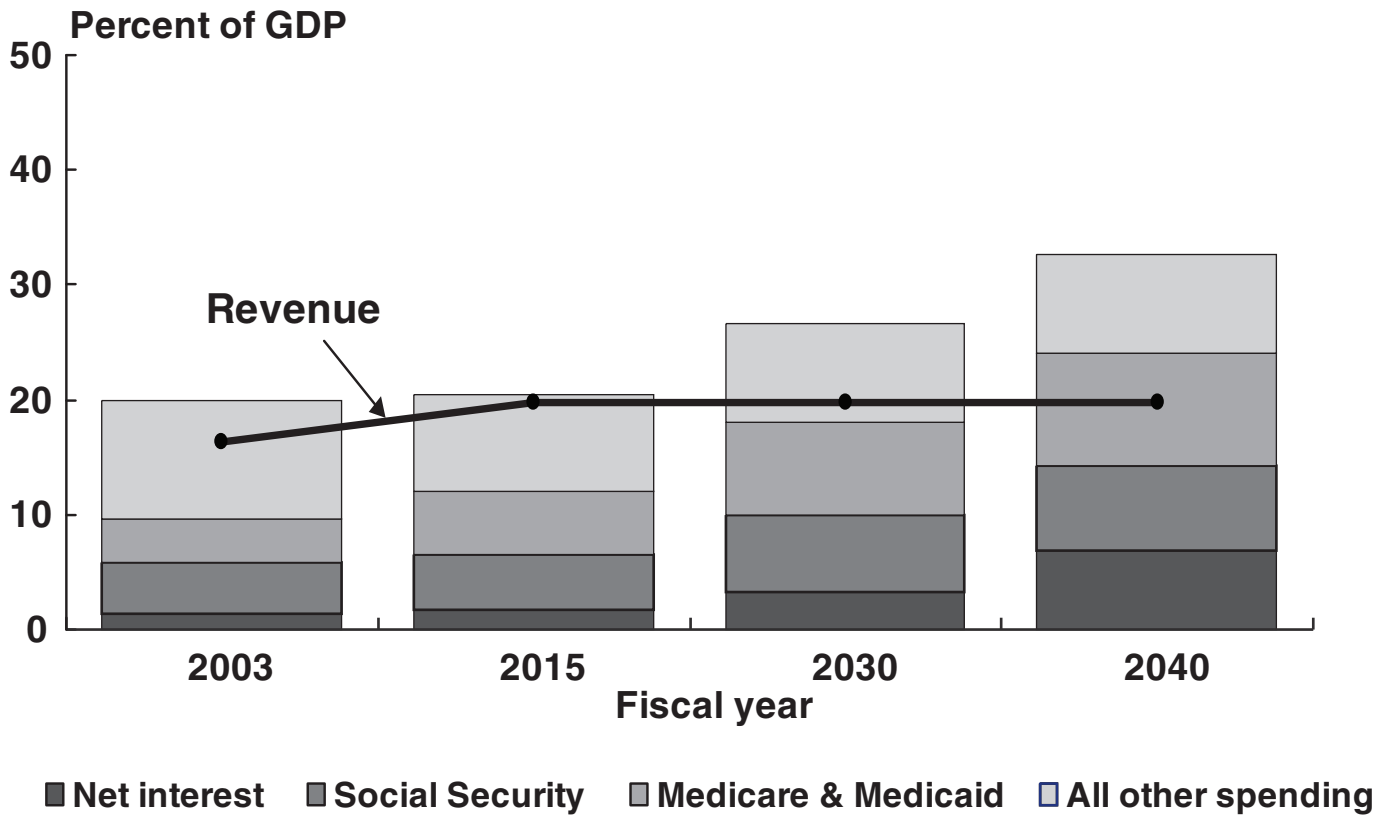
^b This amount includes \$774 billion held by military and civilian pension funds that would offset the explicit liabilities reported by those funds.

^c Figures for Social Security and Medicare are net of debt held by the trust funds (\$1,531 billion for Social Security, \$256 billion for Medicare Part A, and \$24 billion for Medicare Part B) and represent net present value estimates over a 75-year period. Over an infinite horizon, the estimate for Social Security would be \$10.4 trillion, \$21.8 trillion for Medicare Part A, \$23.2 trillion for Medicare Part B, and \$16.5 trillion for Medicare Part D.

Source: GAO analysis of data from the Department of the Treasury, the Office of the Chief Actuary, Social Security Administration, and the Office of the Actuary, Centers for Medicare and Medicaid Services.

Updated 3/30/04.

Composition of Spending as a Share of GDP Under Baseline Extended

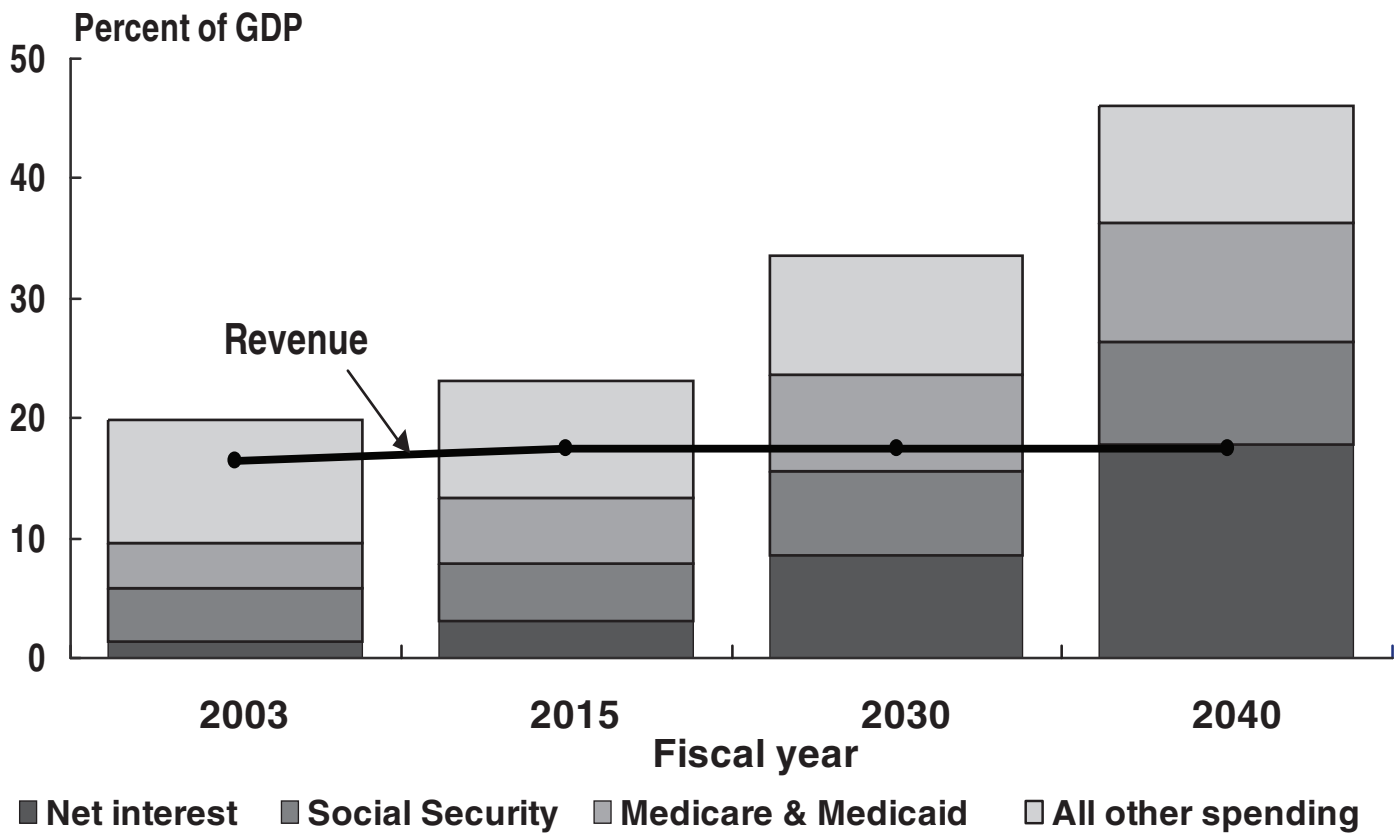


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant. Budgetary effects due to passage of the Working Families Tax Relief Act of 2004 are not reflected in this simulation.

Source: GAO's September 2004 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP After 2004 and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2014 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2014, revenue as a share of GDP is held constant.

Source: GAO's September 2004 analysis.

Current Fiscal Policy Is Unsustainable

- The "status quo" is not an option
- Faster economic growth can help, but it cannot solve the problem
- Tough choices will be required involving entitlement programs, discretionary and other mandatory spending, as well as tax policy and enforcement programs
- The sooner we get started, the better

Today's Discussion

- How can the nation be moved toward a dialogue that recognizes the choices that will be needed and the need for action now?
- What are some innovative approaches to conveying the nature, timing and magnitude of the fiscal challenge (e.g., per capita, relative tax burden, intergenerational impact)?
- What changes in accounting and reporting might help to enhance public understanding and promote action (e.g., trust funds, burden reporting, tax preferences)?
- What changes in the budget process, mechanisms, or other metrics (e.g., discounted present value numbers) would help facilitate action?
- What is the role of the media, educators and others in changing the conversation?
- Where do we go from here?

National Saving, the Federal Budget, and the Current Account Deficit

The federal budget deficit and the current account deficit¹ are sometimes described as “twin deficits” that may pose severe risks to the U.S. economy and standard of living if they become too large relative to the economy. While the two deficits are connected, they differ in many important respects.

The two deficits have a relationship to each other through their relationship to national saving and to investment.

$$\text{Investment} = \text{National Saving} + \text{Current Account Deficit}$$

National saving together with any borrowing from abroad (equal to the current account deficit) provide the resources for investment that can boost productivity and lead to higher economic growth and future living standards.

What is national saving? It is the portion of a nation’s income not used for consumption during a given period. National saving is defined as the sum of private saving, that is, saving by households and businesses, and government saving. Federal budget surpluses represent government saving, and federal budget deficits represent dissaving. Accordingly, federal surpluses or deficits affect the level of national saving.

In recent years, personal saving by households has reached record lows while at the same time the federal budget deficit has climbed. Accordingly, national saving has diminished but the economy has continued to grow in part because more and better investments were made. That is, each dollar saved bought more investment goods and a greater share of saving was invested in highly productive information technology. The economy has also continued to grow because the United States was able to invest more than it saved by borrowing abroad, that is, by running a current account deficit. However, a portion of the income generated by foreign-owned assets in the United States must be paid to foreign lenders. National saving is the only way a country can have its capital and own it too.

While the federal budget and current account deficits are linked, they may or may not move in the same direction and budget deficits are not

¹ Technically, the current account is defined as a net measure of U.S. international transactions in goods, services, investment income, and unilateral transfers. The current account is broader in coverage than the trade balance.

necessarily the source of trade deficits. In the 1980s and during the 2001 recession, the two deficits both increased, but in the last half of the 1990s, the federal budget improved while the current account deficit continued to grow. The two deficits can move independently because the international capital flows that drive the trade deficit depend on factors beside the U.S. federal budget deficit. For example, during the last half of the 1990s, the rise in U.S. productivity made U.S. assets more attractive, drawing private capital from abroad. Since 2001 capital inflows have come increasingly from official sources, primarily from Asian countries purchasing U.S. assets to mitigate or prevent their currencies from appreciating against the dollar. During this period, federal budget deficits have risen.

Another key difference between the federal budget deficit and the current account deficit is that in the long-term economists believe the current account deficit will eventually correct itself as markets seek a new equilibrium. Continued large-scale current account deficits could trigger equilibrating, and potentially dislocating, changes in prices, interest rates, and exchange rates as the adjustment occurs. In contrast, there are no similar self-correcting mechanisms for federal budget deficits.

The persistent U.S. current account deficits of recent years have translated into a rising level of indebtedness to other countries. However, many other nations currently financing investment in the United States also will face aging populations and declining national saving, so relying on foreign savings to finance a large share of U.S. domestic investment or federal borrowing is not a viable strategy for the long run.

The Long-Term Fiscal Challenge = A Long-Term Public Opinion Challenge

The Long-term Fiscal Challenge = A Long-term Public Opinion Challenge

Nancy Belden

President, American Association for Public Opinion Research

Belden Russonello & Stewart, Washington, DC
nancybelden@brspoll.com

Two drivers for changing public policies:

Political will

Public will

Belden Russonello & Stewart

2

Currents of public opinion

- Dim view of the deficit.
- But deficit not highly salient and not understood.
- Tax cuts are hard to take back but not in demand.
- Desire for spending on important priorities, *e.g.*, Medicare, Social Security, education.

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The public takes a dim view of deficits and is worried.

Signs point to an economy that is going:

- to be in trouble – jobs are moving overseas, budget deficit growing, too many jobs w/o health insurance or pensions
60%

or

- strong— jobs being created, inflation low, the stock market is up
31%

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Worried (continued)

Compared to now, how serious a problem will the budget deficit be in the years to come:

- | | |
|----------------|-----|
| • More serious | 49% |
| • Less | 13 |
| • Same | 31 |

But not *that* worried.

To reduce FBD, would you be

- Willing to pay more in taxes 34%
- Not willing 61

Not highly salient, compared to other concerns

“Very important” in deciding for whom to vote

Economy	78%
Terrorism	77
Jobs	76
Education	75
Iraq	74
Social security	65
Moral values	63
Taxes	59
Federal budget deficit	57
Environment	53

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7

Public doesn't see the need for more tax cuts in light of the deficit.

- Hold off on tax cuts to make sure the budget does not go into a deeper deficit 69%
- Pass additional tax cuts stimulate the economy 24

And would prefer to balance the budget.

If you had to choose, would you prefer

- Balancing the budget 66%
- Cutting taxes 31%

But once given, tax cuts are hard to take back.

Given recent events and the need for new government spending, the tax cuts that have not been phased in yet

- Should be rolled back 35%
- Left in place 49%

Plus, there is a desire to spend on popular programs.

If you had to choose, would you prefer

- Balancing the budget 44%
- Spending more on education, health care and economic development 55%

This conflict among attitudes on balanced budget, taxes and spending on popular programs

makes the FBD an issue that cries out for
leadership -- to define for the public its
urgency and implications.

Citations

Slide

4. NBC News/Wall Street Journal poll, May 2004. N=1012.
5. CBS/New York Times poll, March 2004. N=1206.
6. CBS/New York Times poll, March 2004. N=1206.
7. Pew Research Center poll, October 2004. N=1568.
8. "How Americans Feel about the Economy, Taxes, and the Budget." Poll conducted by Mark J. Penn, March 2002. N=500.
9. Associated Press poll, November 2004. N=1000.
10. "How Americans Feel about the Economy, Taxes, and the Budget." Poll conducted by Mark J. Penn, March 2002. N=500.
11. Associated Press poll, November 2004. N=1000.

Belden Russonello & Stewart

13

Belden Russonello & Stewart is a research and communications firm providing public opinion research and communications strategy to progressive organizations, foundations, government and corporations since 1982.

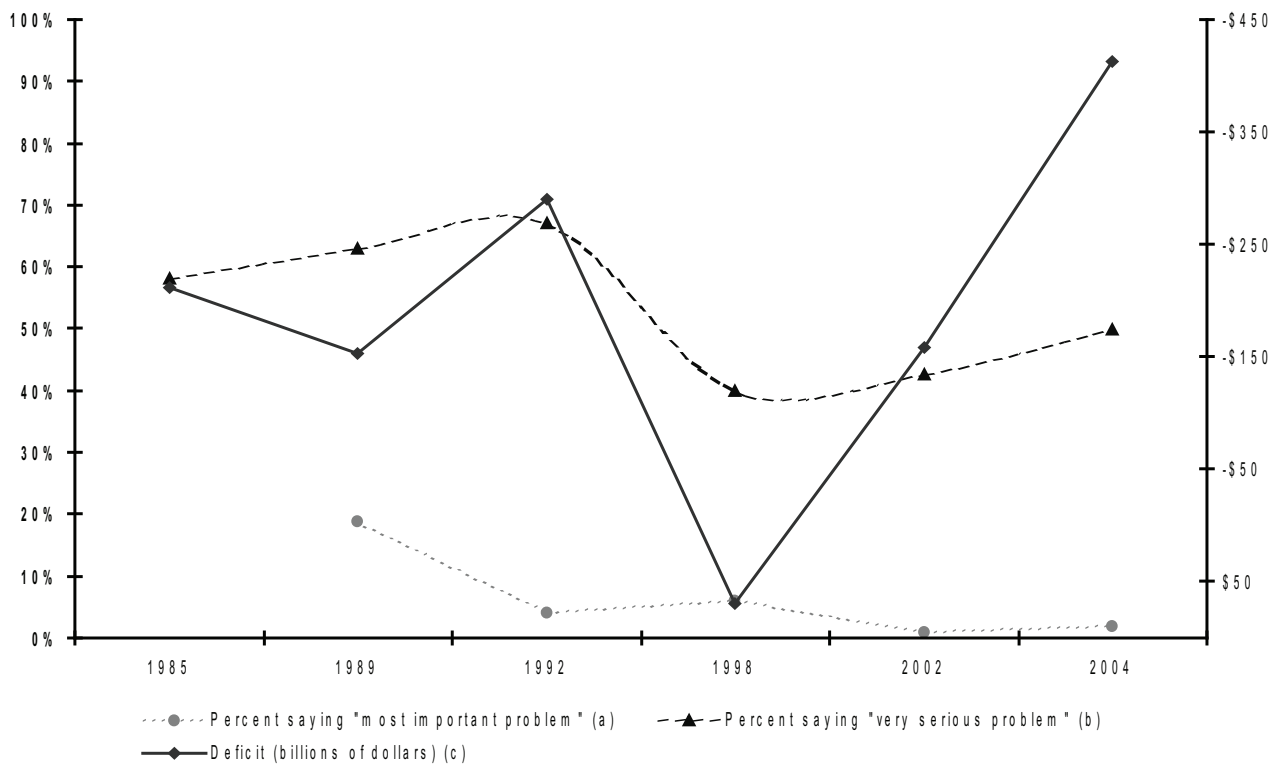
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14

Addendum

The Deficit and Public Perception



Belden Russonello & Stewart

15

Citations for Addendum Slide 15

- a. The Pew Research Center for the People & the Press. Feb. 1989, Jan. 1992, May 1998, March 2002, and Nov. 2004. *What do you think is the most important problem facing the country today?*
- b. Gallup Organization. April 1985, Jan. 1989, Jan. 1998, and Sept. 1992. *In your opinion, is the current Federal budget deficit a very serious problem for the country, a fairly serious problem, not a serious problem, or is this something you haven't thought much about?* CBS News/New York Times Poll. March 2004. *How serious a problem do you think the budget deficit is for the country right now – very serious, somewhat serious, not too serious, or not at all serious?*
- c. *The Budget and Economic Outlook: Fiscal Years 2005-2014*. Released January 26, 2004.
<http://www.cbo.gov>

Note: 2002 data for question "b" is estimated.

Rethinking Public Engagement and Countering Mistrust



Rethinking Public Engagement and Countering Mistrust

**Presented by Daniel Yankelovich and Ruth Wooden
to
GAO Comptroller General Forum on the Long-Term Fiscal Challenge
December 2, 2004**

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www.ViewpointLearning.com

1

Recent history

- Three major waves of mistrust in the past 70 years
 - » The Great Depression
 - » Mistrust in the 1970's
 - » The current wave

A wide - and serious - disconnect between citizens and leaders

What citizens see

- | “Black box” of budgeting and decision-making
- | Powerful special interests and partisanship
- | Little of value being done to address challenges
- | Experts are running the show

What leaders see

- | People “wanting it all” but unwilling to pay for it
- | An uninformed public that has little of value to offer policy making
- | Apathetic citizens who do not want to be engaged
- | Activists hijack all attempts at public dialogue

Characteristics of a disengaged public

- Inattentive
- Little apparent common ground
- Dominated by wishful thinking
- Mistrustful and suspicious
- Focused more on self than community
- Haven't done hard thinking
- Attitudes inconsistent and contradictory
- Media perpetuate the state of raw opinion

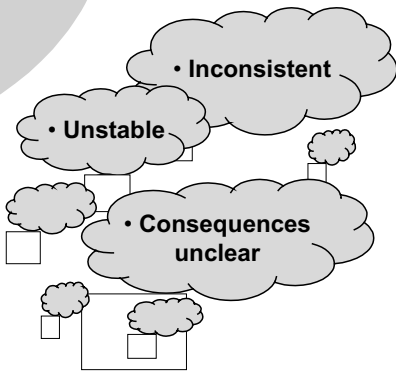
New engagement strategies

1. Broaden existing model of public engagement and how to research it
2. Counterbalance adversarial strategies with dialogue-based ones
3. Build “stewardship bridge” to the public
4. Develop a new kind of communication program

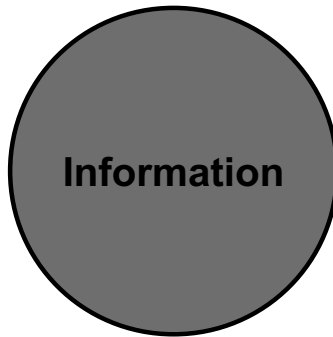
1. Broaden the model

The existing model of public engagement

**Unorganized
Public Opinion**

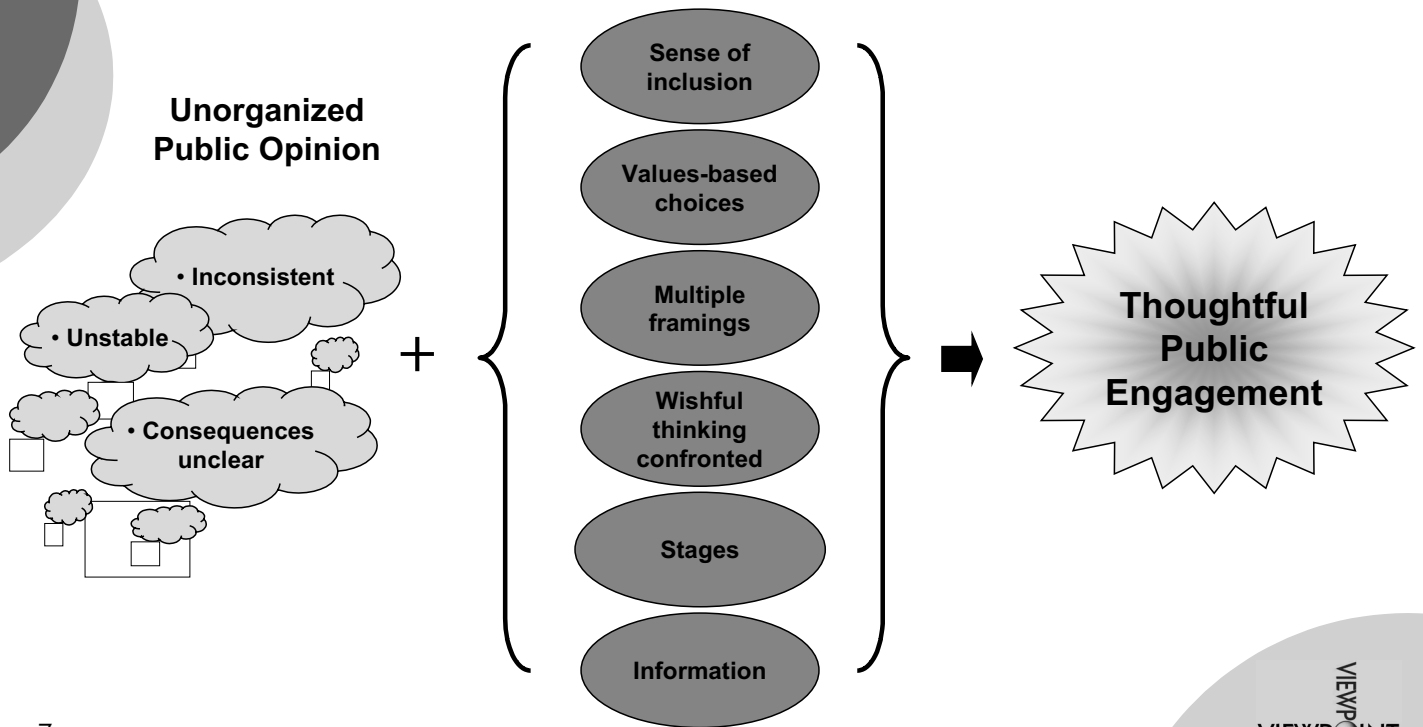


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1. Broaden the model

A broader model of public engagement

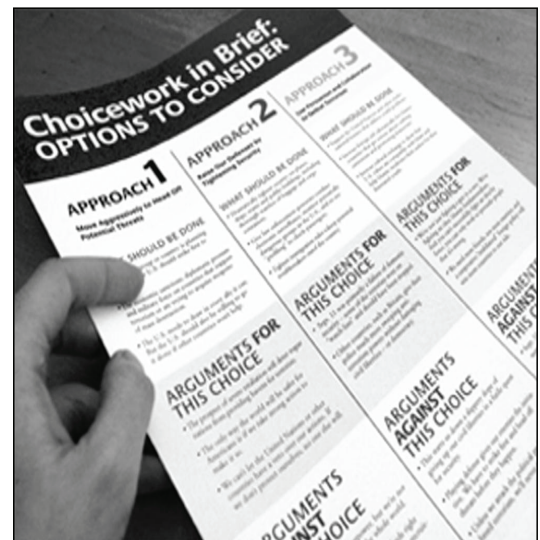


1. Broaden the model

Dialogue-based research unearths public's post-wishful thinking preferences

In contrast to polls and focus groups, new deeper-probing research methods help citizens:

- Absorb pros and cons of choices
- Wrestle with painful tradeoffs
- Connect the dots
- Hear other points of view
- Clarify core values
- Overcome wishful thinking



2. Dialogue-based strategy

Dialogue is a surprisingly effective strategy for building engagement

Unlike adversarial strategies, dialogue can:

- Create trust
- Discover common ground
- Generate ownership/identification
- Resolve framework conflicts

2. Dialogue-based strategy

When to use dialogue

Use dialogue when simpler approaches don't work, for example when:

- Mistrust blocks agreement
- Differing frameworks lead to misunderstanding
- Isolation from other points of view can blind-side you
- Changes are needed in the climate of moral values
- Dealing with trends or changes outside the comfort zone

3. Stewardship bridge

Stewardship bridge

Stewardship = moral obligation to leave things in better shape

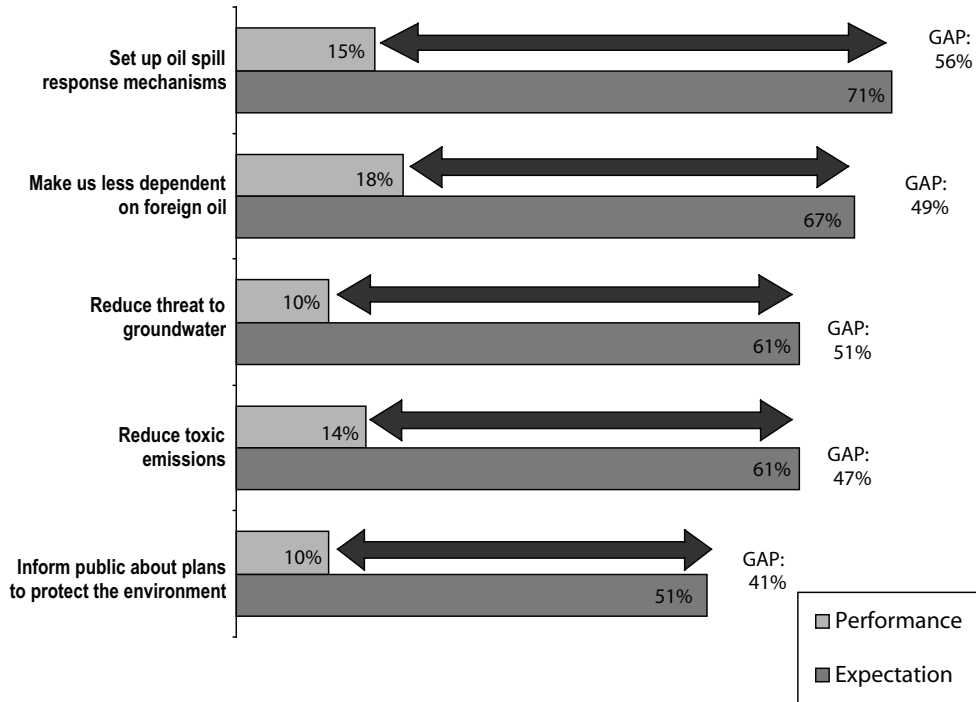
- The special responsibility that goes with privilege, trust and high standing
- Seen most clearly when violated
 - » E.g. Red Cross
 - » E.g. Catholic Church
 - » E.g. Mutual funds/insurance
- Performance that meets or exceeds expectations

3. Stewardship bridge

3. Stewardship bridge (cont'd)

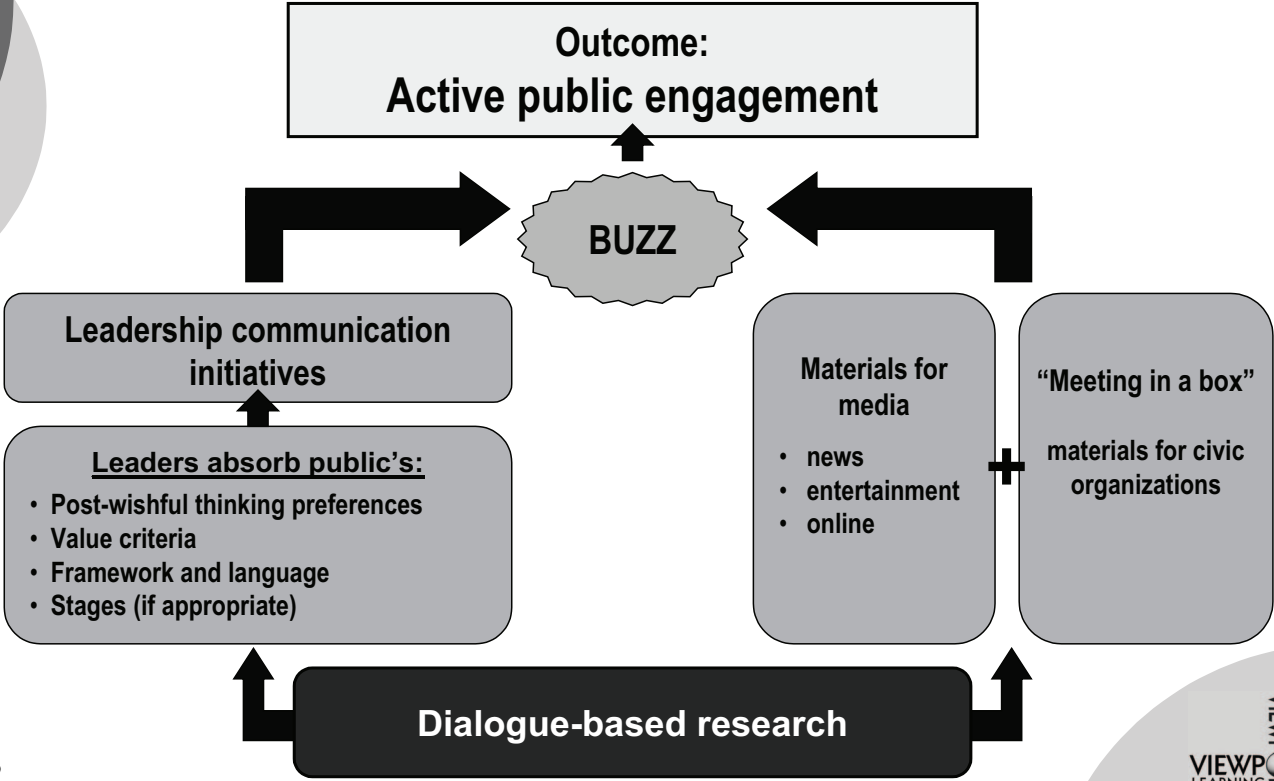
An example of the “stewardship gap”
A pipeline company (mid-1990s)

A good steward would:



4. Communication program

Build on deeper-probing research



Conclusion

To break through the crust of mistrust, leaders must rethink citizen engagement in far-reaching new ways

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