
Presentation by
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Economic Insecurity Challenges

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Economic Insecurity in America
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I appreciate the opportunity to be with you this evening. I have great respect for the Rockefeller Foundation and for what you do for society.

In this regard, I want to thank the Foundation for your past support of the Key National Indicators initiative. I view this as one of two critically important and interrelated initiatives that I am personally involved in. The other being the efforts by myself and others to help educate the American people on the need for us to start making tough choices in connection with our current fiscal path in order to help make sure that our future is better than our past.

Tonight you have asked me to make some remarks regarding issues relating to economic insecurity in America. I will do that, but first a few preliminary remarks. I had the opportunity to read the Rockefeller Foundation's 2006 annual report before coming here. In that report, I noted several comments by Judy Rodin in her President's letter that I strongly agree with and would like to briefly provide my perspective on.

First, most motivated people want to make a difference. At the same time, while both attitude and effort are important, it's achieving results that really counts.

Second, in today's world we face many shared challenges that cross geopolitical boundaries and all sectors of the economy. For this and other reasons, in today's world, one must partner for progress in order to maximize the chance of success, leverage limited resources, and mitigate related risks.

Finally, both GAO and the Rockefeller Foundation have been undertaking some tough transformational changes. These are challenging and often controversial endeavors, and yet change is essential if we want to stay relevant in our rapidly changing world, continuously improve as an organization, and make a real and lasting difference.

The United States is a great nation, probably the greatest in history. However, we are currently relying too much on our temporary sole superpower status and our past successful track record. Too many Americans are living for today rather than taking steps to create a better tomorrow.

As one looks inside and outside Washington's Beltway and around the country, it seems that America is currently afflicted with several maladies. Namely, myopia (or shortsightedness), tunnel vision, and self-centeredness. As one of your own trustees, Jack Rowe, recently stated, America also suffers from mural dyslexia—or the inability to read the handwriting on the wall!

America faces several large and growing sustainability challenges that we are not taking seriously enough. This must change for the sake of our country, our children, and our grandchildren.

What are some of the sustainability challenges that we face? They include our current fiscal, foreign, health care, education, energy, environmental, Social Security, Iraq, immigration, and

infrastructure policies, and the business models for our military, just to name a few. I'm happy to take questions on these later, but it's time for me to turn to tonight's topic—economic insecurity among Americans.

Before coming to New York, I also had the opportunity to read the results of the Rockefeller-funded American Worker Economic Security Survey on this topic. The results were important and possibly a surprise to many. As you know, among other things, the study found such things as the following:

- Americans would prefer economic security to higher pay.
- Eighty percent of Americans would prefer a secure pension or health care over a guaranteed job.
- Americans think that things have gotten less secure.
- They also expect things to get less secure.
- Many lack health coverage.
- Pension coverage is stagnant.
- Savings rates have plummeted.
- One in two feel they lack enough savings to weather a crisis.
- Most people feel they aren't saving enough for retirement.
- And nearly half worry about Social Security cutbacks.

In sum, Americans are deeply concerned about their economic security. These are serious and sobering findings, but we should not be surprised by them.

What are some of the key factors that could be driving America's economic insecurity? First, while America is still the world's largest economy, we can no longer dictate to others. Furthermore, while our economic and other influence in the 21st century will be significant, it is likely to diminish as a percentage of the global economy over time unless we change course.

We must recognize the reality that America cannot compete based on wages—and we shouldn't want to. If we try we'll get beat and our standard of living will decline over time. As a result, in today's knowledge-based economy, America must compete based on innovation, productivity, and quality. This means that we need to focus our education, immigration, research and development, and other key public policies and private practices to help maximize the skills and

knowledge of our workforce. Ultimately, we will also need to do something about increasing litigation risks in the United States. if we want to maximize our competitive posture while still protecting the public from abuse.

Another key fact that we must recognize is that while the private sector is the engine of growth in our economy, companies do not have duties of loyalty to countries. They have a duty of loyalty to their shareholders, and hopefully they will consider the interests of all key stakeholders, but you can't count on it. Furthermore, U.S.-based businesses that do business in other countries have demonstrated their willingness and ability to move facilities, jobs, and even their headquarters overseas.

This duty of loyalty to shareholders means that companies try to maximize their revenues, minimize their expenses, and maximize their bottom line. And in today's age of increasing globalization, technological innovation, and focus on core capabilities and competitive advantages, the result often is more offshoring, outsourcing, and replacement of people with technology.

When minimizing and managing expenses, one must also consider compensation costs. Given escalating health care costs, pension coverage for American workers has been stagnant for several decades. In addition, most workers are now covered by defined contribution versus defined benefit plans. Under such plans individuals bear the investment risk, and they may end up spending all or part of their retirement savings before they reach retirement age.

Health care costs are out of control. In fact, health care is the largest fiscal challenge for the federal and state governments as well as the biggest competitive challenge for American business. If there is one thing that could bankrupt America, it's health care costs!

Escalating health care costs put pressure on firms to limit the growth of cash compensation. They also serve to reduce federal tax revenues, since the single largest tax preference in the Internal Revenue Code is the income and payroll tax exclusion for employer-provided and -paid health care benefits. For fiscal and other policy reasons, this tax preference will likely be curbed over time.

Employers and governments have borne most of the burden of increased health care costs since 1965. However, both these groups have started to shift costs to employees. Furthermore, more than 46 million Americans lack health insurance coverage and the number is increasing. At the same time, we have below average health care outcomes for an industrialized nation. The bottom line is that we must engage in fundamental and comprehensive health care reform in installments because the status quo is unacceptable and unsustainable.

Americans are also concerned about the rising cost of housing and energy costs for themselves and college costs for their kids. Furthermore, an increasing number of Americans are being

sandwiched between caring for their kids and caring for their aging parents. These same Americans are also becoming concerned about their own long-term care needs as well.

We are also seeing growing gaps between the haves and have-nots, not just overseas but also in America. At the same time, too many American families are following the bad example of their federal government—they are spending more than they make, going deeper into debt, facing compounding interest costs, and seeing that in the not too distant future they may not be able to make their minimum payments. Believe it or not, for the first time since 1933-1934, American households spent more money than they took home in 2005-2006!

This approach to managing our nation's and families fiscal affairs cannot continue and must change—the sooner the better. Doing so will, however, require more leadership in government and more financial literacy for individuals.

Unfortunately, Washington is a lagging indicator. Washington typically will not act on major challenges until issues reach crisis proportions. It seems that a growing number of Americans are starting to follow this pattern as well.

It is clear that America faces many sustainability challenges and that an increasing number of Americans are concerned about their current and future economic security. These are among the primary reasons why a significant majority of Americans believe that the United States is on the wrong track.

Yes, we face serious challenges that require tough choices. At the same time, we also have certain assets and opportunities that we need to capitalize on: for example, our nation's diversity, millions of underutilized "seasoned Americans," our innovative ability, our can-do attitude, and our entrepreneurial spirit. Fortunately, we Americans have faced great challenges in the past, and typically we do ultimately rise to address them.

We can, we must, and we will eventually take steps to address our many challenges and capitalize on our related opportunities. However, we need to start soon, because our clock is ticking and time is working against us.

How can we create a greater sense of urgency? First, we need to engage in more public education and engagement efforts in connection with these issues. Second, we need to take steps to help ensure that the next President is willing to take on tough issues. He or she must be able to effectively use the bully pulpit, forge bipartisan agreements, and make hard choices. Third, we need to recruit a few champions on both sides of the political aisle and on both ends of Capitol Hill to help create and support a sensible and bipartisan approach to addressing these issues. Finally, we may also need some sort of capable, credible, and bipartisan commission to help prepare the way and set the table for needed actions.

It's possible that a little history lesson can also provide us a reason to act sooner rather than later. The Roman Republic lasted over 500 years, but it fell for several reasons—three of which seem to resonate today. First, a decline in moral values and political civility at home. Second, an overconfident and overextended military around the world. Third, fiscal irresponsibility by the central government. We must learn the lessons from history in order to ensure that we are the first republic to stand the test of time.

Each of us as individuals and all major institutions concerned with public policy issues and the greater good must decide what role we can play to help ensure that our collective future is better than our past. I am committed to do my part to keep America great, and I'm confident that the Rockefeller Foundation will determine how best to do its part both as a single entity and in partnership with others.

Thank you for your time and attention.

