
Presentation by
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America At A Crossroads

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Thank you, Hillary, for that kind introduction. I appreciate the opportunity to address such a capable and caring group of CEOs.

I've prepared some timely and hopefully thought-provoking comments that are based on the truth and include some tough talk. But, I'd like to start with a poetic reference.

In his famous poem, "The Road Not Taken," Robert Frost describes coming to a crossroads in the woods of New England. After considering his options, Frost chooses the road less traveled, a decision that he says "made all the difference."

Frost is getting at a fundamental truth in life: We, as human beings, have the ability to choose and to manage the consequences of our choices. As we all know, the right choice in life often isn't easy or popular. In fact, the right choice can require courage, patience, persistence, perseverance, and even pain before you prevail.

Today, America is at a critical crossroads. We must begin to make some tough choices. Things may seem fine at the moment, but when we look into the future, in some cases, the outlook isn't pretty. Unfortunately, in such areas, as time passes, it's going to get worse, not better, unless we make tough choices and change course.

We're a great nation, probably the greatest in the history of mankind, but several major challenges lie ahead. For example, given the retirement of the baby boomers and rising health care costs, we're facing a fiscal challenge unprecedented in U.S. history. At the same time, our world is experiencing dramatic changes on several fronts, from the economy, to the environment, to public health, to personal privacy, to national and homeland security.

In my view, the greatest threat to America's future isn't hiding in a cave in Pakistan or Afghanistan; it's right here at home. What I'm talking about is America's continuing ignorance, apathy, and inaction on a range of large, known, and growing challenges that are reshaping our nation and our world. What's behind this? A big factor is a pervasive combination of shortsightedness and tunnel vision that keeps many people from seeing the "big picture," the "long view," and the "greater good." These two afflictions seem to be widespread not just in Washington, but across all sectors and from sea to shining sea.

Today, too many Americans are consumed with the here and now. Far too little thought is given to what's come before or what lies ahead. For example,

- Too many individuals focus on their next paycheck.
- Too many company executives focus on the next quarterly earnings report.

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- And too many politicians focus on the next election cycle rather than the next generation.

In addition, too many people are focused on one issue at a time and their own narrow span of control without understanding how the specific issue and their individual role fits into a broader context. Finally, too many people are focused on the word “me” rather than the word “we.”

Don't get me wrong. The United States is still a great country. We're the world's only superpower, with unparalleled economic, military, and cultural influence around the globe. More than 200 years after our country's founding, our system of government may be frustrating and at times dysfunctional, but it is still the best on earth. Thanks to the efforts of James Madison and the other framers of the Constitution, Americans continue to enjoy political and personal freedoms that are the envy of the world. Our overall standard of living remains exceptionally high. Compared to most nations, the United States ranks high on measures like personal income, literacy, and home ownership, to name a few. Clearly, we have much to be proud of and much to be thankful for.

But contrary to widespread assumptions, just because we're the only superpower doesn't mean we're first in everything. In fact, we're below average for an industrialized nation in a number of important areas. For example, the United States, which gave the world Thomas Edison, the Wright brothers, Jonas Salk, and Bill Gates, doesn't even rank in the top 20 nations on math and science test scores. This would probably come as a big disappointment to founding fathers like Benjamin Franklin, who was an amateur scientist as well as a full-time patriot and part-time politician. But I suspect the founders would be even more disappointed by our willingness to pile on both personal and public debt. After all, most of the founders were farmers and businessmen who understood the value of thrift and the perils of debt. As Benjamin Franklin said, “He who goes a-borrowing goes a-sorrowing.”

Today, that sound and timeless advice seems to be falling on deaf ears both in Washington and around the country. Unless we make changes, and soon, the United States is poised to enter a prolonged period of escalating deficits and rapidly mounting debt burdens. The facts on this aren't in dispute. The difficulty is convincing policymakers and the public that the time to act is now, before a crisis hits.

This afternoon, I'm going to discuss a few of the challenges facing our nation. I'm then going to talk about the need for fundamental government transformation and for enlightened and sustained leadership to position us for a brighter future. My key point is that each of us, whether we're in the public, private, academic, or independent sectors, has a role to play in keeping America great. By working together, we can help return America to a prudent and sustainable path. We can also fulfill our stewardship obligation to our children and grandchildren.

21st Century Challenges

As I just said, America faces a range of current and emerging challenges, many of which know no geopolitical borders or sectoral boundaries. I'm sure that many of these issues will be familiar to you and to your organizations. Let me start with possibly the most sweeping agent of change, and that's demographics.

Demographics will decisively shape both the American and the global landscape in the future. Our population is aging. At the same time, U.S. workforce growth is slowing. This means that just when increasing numbers of baby boomers start to retire and draw benefits, there will be fewer workers paying taxes and contributing to social insurance programs. Importantly, retirees are living longer but wanting to retire earlier, even if they can't afford to. These developments are going to put huge strains on our pension and health care systems as well as our nation's labor supply, which is critical for future economic growth in a knowledge-based economy.

Our country is also growing increasingly diverse. Just last week, America hit the 300 million population milestone, in part due to immigration, both legal and illegal. America is a microcosm of the world, and our diversity is a great strength that we have yet to fully capitalize on.

Beyond demographics, the United States confronts a range of other challenges. Globalization is affecting our international competitiveness, our trade posture, our capital markets, and our approach to environmental, homeland security, public health, and other issues. With the end of the Cold War, we face new security threats, including terrorist networks and rogue nations armed with weapons of mass destruction.

In many ways, the quality of life for the "average American" has never been better. And yet, as we all know, averages can be deceiving. The truth is America, like the rest of the world, faces a growing and unhealthy gap between the haves and the have-nots. As many of you know first-hand, many Americans are facing a range of quality-of-life concerns in their personal lives, including slower real wage growth, higher energy costs, underachieving public schools, gridlocked city streets, and the stresses of caring for aging parents and growing children all at once.

Arguably, our single largest domestic policy challenge is health care. The truth is our nation's health care system is in critical condition. It's plagued by growing gaps in coverage, soaring costs, and below average outcomes for an industrialized nation on basic measures like medical error rates, infant mortality, and life expectancy. Health care represents the number one fiscal challenge facing federal and state governments, and health care is the number one competitiveness challenge facing American business. Candidly, if there's one thing that could bankrupt America, it's health care costs.

From a personal perspective, both my wife and I have experienced accidents during the past year that caused us to use our health care coverage. We have been very unimpressed with the cost, quality, and customer service aspects we experienced.

America's Fiscal Outlook

All of the challenges I've discussed are important, but arguably the most urgent challenge overall today is America's deteriorating financial condition and fiscal outlook.

Our fiscal challenge overarches every major public policy spending and tax issue. In my view, America now faces not one but four interrelated deficits. These deficits have serious implications for our role in the world, our future standard of living, and even our long-term national security.

The first deficit is the federal budget deficit. As you probably know, federal budget deficits have reappeared in recent years. It's no mystery why: Spending is out of control, and we've seen a series of major tax cuts. While this year's deficit was lower than last year's, it's premature to start rejoicing. Our unified and operating budget deficits are still imprudently high given our approaching demographic tsunami of spending. And both the Office of Management and Budget (OMB) and the Congressional Budget Office (CBO) have predicted next year's deficit will rise sharply.

But the short-term deficit isn't our primary challenge. Instead, it's the federal government's increasing liabilities and unfunded commitments that are the real problem. I'm talking about things like the growing unfunded commitments for Social Security and Medicare. In fact, the estimated total U.S. fiscal burden has soared from about \$20 trillion in 2000 to about \$46 trillion in 2005. This burden is growing at the rate of at least \$2 trillion to \$3 trillion each year.

The \$46 trillion figure translates into an IOU of about \$411,000 per American household. Keep in mind that in 2005 the average annual household income in this country was only about \$45,000.

By 2040, to close our fiscal gap, our government will have to raise taxes through the roof or slash many federal programs the American people now take for granted. In reality, the impact will be felt long before 2040. Independent sector organizations, such as those you represent or support, may well be faced with the prospect of taking up a good deal of the slack.

The second deficit is our savings deficit. The savings rate for U.S. consumers has been falling for some time. In calendar year 2005, for the first time since 1933, the annual personal savings rate in the United States sank to negative territory. Think about it. We've returned to savings levels not seen since the depths of the Great Depression. America now has the lowest overall savings rate of any major industrialized nation.

Clearly, many Americans, like the federal government, are living beyond their means. Too many of our friends, family, members, and neighbors are living for today and not preparing for tomorrow. This trend is particularly alarming in an aging society such as our own. Obviously, those Americans who save more will live better in retirement. And given the problems plaguing our public and private retirement systems, personal investments are becoming even more important to a person's retirement security planning.

The third deficit is our country's balance-of-payments deficit. America is simply spending more than it's producing. In 2005, our trade deficit hit \$726 billion, up more than \$100 billion from a year earlier.

Finally, there's our fourth deficit, and it's probably the most serious and sobering deficit of all. What I'm talking about here is America's leadership deficit.

At both ends of Pennsylvania Avenue and on both sides of the political aisle, we need more individuals who have the courage to speak the truth, no matter how unpleasant that message may be. We need more individuals who are prepared to challenge the status quo, work together, and forge consensus for real and lasting change. We need more individuals who are willing to make tough choices that are in the long-term interests of our nation and its citizens.

Unfortunately, not enough key policymakers are concerned about America's growing fiscal imbalance and the other long-term challenges I've mentioned. Calls for real reform or shared sacrifice have been few and far between. So far, we've heard far too much rhetoric and seen far too few results.

What we've got going here are the elements of a perfect storm, a potent mix of ignorance, apathy, and inaction throughout large parts of American society. Our current indifference to fiscal discipline and these other major challenges can't continue. If it does, a crisis isn't a matter of "if" but "when" and how bad.

Transforming Government

To meet the changes and challenges that are coming, government transformation is essential. The challenges I've been discussing aren't partisan issues, and the solutions won't be either.

In my view, the first order of business is to restore fiscal discipline. We've got to stop digging our fiscal hole deeper. For starters, Washington needs to face facts and improve transparency over where we are, where we're headed, and why change is essential. Current federal budgets and financial information often provide policymakers and the public with a misleading picture of our government's true financial health and long-range fiscal outlook.

For example, 10-year budget projections fail to take into account the huge long-term costs associated with the impending retirement of baby boomers. Similarly, these projections ignore

the huge revenue losses that would result from making recent tax cuts permanent. Many people also wrongly believe that the global war on terrorism and homeland security account for much of the recent increases in federal spending. The truth is that these two areas only account for about \$100 billion of the current federal deficit.

It's crucial that we impose meaningful budget controls on both the tax and the spending sides of the ledger. Members of Congress should also have more explicit information on the long-term costs of spending and tax bills—before they vote on them. The Medicare prescription drug benefit, which is turning out to be one of the most expensive government entitlement programs of all time, is a glaring example of what's wrong with the current system. This legislation came with an \$8 trillion price tag, but that fact wasn't disclosed until months after the bill was passed and signed into law.

More broadly, way too much of government today remains on autopilot and is based on social, economic, national security, and other conditions that existed when Dwight Eisenhower and John F. Kennedy were in the White House.

As a nation, we need to ask, what is the proper role of the federal government in the 21st century? How should it be organized? How much will it cost, and how will we pay for it?

Nothing less than a top-to-bottom review of federal programs, policies, functions, and activities is needed to determine if they're meeting their objectives and are well aligned with 21st century realities. This will also help free up resources for other needs. Congress and the President need to decide which policies and programs remain priorities, which should be overhauled, and which have simply outlived their usefulness.

To give you one example in the tax area: Just this summer, the U.S. government announced it will stop collecting a 3-percent tax on long-distance telephone calls. This doesn't seem particularly startling until you realize that the tax had been introduced in 1898 to help pay for the Spanish-American War—a conflict that lasted only a few months!

Entitlement reform is particularly essential. We need to restructure Social Security, Medicare, and Medicaid and make these programs solvent and sustainable for future generations. We also need to reengineer the base of other federal spending and tax policies.

Strategic Planning

More than ever, our government needs a strategic plan to help guide its efforts not just over the coming years but over the coming decades. Such a strategic plan needs to have meaningful goals and metrics that both members of Congress and the public can readily understand.

Incredibly, strategic planning is an idea that is only now beginning to take hold in the federal government. Believe it or not, the executive branch has never had a strategic plan. GAO has

been leading by example in this area, issuing its first strategic plan back in 2000. GAO's strategic plan explains in straightforward language our mission, our vision, our short- and long-term goals and objectives, our core values, how we measure success, and the issues we expect to focus on in the future. We regularly revise the plan to reflect changing congressional needs and priorities. Right now, we're in the midst of updating the plan and expect to issue a new version in early 2007.

Since 2000, GAO has also issued an annual performance and accountability report that informs Congress and the American people about GAO's accomplishments and its plans for the coming year. The financial benefits and other results of our work are documented, and we highlight our progress in meeting each strategic goal. For example, for fiscal year 2006, GAO just announced an record \$105 return on every dollar invested in our agency. That's number one in the world, and many times more than any other accountability organization has ever been able to achieve.

Frankly, this sort of straightforward cost/benefit reporting needs to become standard throughout the U.S. government. In my view, the American people have a right to know what federal agencies have been doing with the taxpayer dollars they've been given. In addition, the Congress needs to better link its allocation of taxpayer resources to real results.

As a key step toward developing a meaningful strategic plan for the federal government as a whole, GAO has published an unprecedented report that asks a series of probing questions about mandatory and discretionary spending, federal regulations, tax policy, and government operations. For example, can we better allocate resources within the Defense Department to address current and future security threats? Should we reconsider some long-standing tax incentives, such as the health care exclusion? Is it time for the federal government to update its organizational model and job classification and compensation systems, both of which date to the 1950s? The answer to these questions is yes, yes, and yes.

I should stress that while GAO isn't a policymaking institution, decades of experience and expertise put GAO in a unique position to help stimulate timely and informed discussion and debate. Our report is called "21st Century Challenges: Reexamining the Base of the Federal Government," and it's free on our Web site at www.gao.gov. I believe many of your organizations will find GAO's questions relevant to your current and future missions. It's my hope some of you will consider sponsoring research, citizen outreach, constructive engagement activities, and other initiatives based on the key questions in this important and unprecedented document. Such efforts could help spark a much-needed and long-overdue debate on the proper role of government for today and tomorrow.

Partnering for Progress

With the range of challenges I've described this afternoon, our government can't go it alone. Public officials have to show a greater willingness to partner for progress not just with their

colleagues across government but also with their counterparts in the private, academic, and independent sectors, both domestically and internationally.

Think of the expertise, experience, and resources represented in this room alone. By applying these assets to shared challenges, we can exponentially increase our chances of success. We're also more likely to mitigate related risks and avoid common mistakes.

Let me give you two examples of ongoing partnerships between GAO and the independent sector. For several years, I've been speaking publicly about our nation's worsening financial condition and fiscal outlook. Beginning last year, I started going on the road with representatives from the Concord Coalition, the Brookings Institution, the Heritage Foundation, and other groups as part of a "Fiscal Wake-Up Tour." We've been convening forums and town hall meetings across the country at colleges and universities and other public venues. In some cases, we've been joined by elected officials. At every forum, we've made it a point to state the facts and speak the truth in a professional and nonpartisan manner. So far, we've visited 13 cities, and we'll be visiting another 3 cities before the end of this calendar year.

The Wake-Up Tour emphasizes the intergenerational aspect of our country's fiscal imbalance. The indisputable fact is that younger Americans and their children will end up paying the price and bearing the burden if today's leaders fail to act.

To date, each participating organization has self-funded this effort, but more can be done with outside assistance. For example, additional citizen education and constructive engagement activities are needed. In addition, developing an online budget game to engage people in making tough choices about federal spending is also desirable.

Our current fiscal partnership is starting to yield results. Members of Congress on both sides of the aisle have started asking some pointed questions about where we are and where we're headed. The Administration now acknowledges that no matter what our deficits are in the short term, we face a large and growing fiscal problem that demands tough choices. Furthermore, legislation was recently introduced that would convene a bipartisan commission to study entitlement reform, tax policy, and other issues, and to recommend related changes.

The need for key national indicators represents another issue that GAO has been partnering on. As you may know, key national indicators represent outcome-based statistical measures that allow policymakers to better assess a nation's status, its progress over time, and its position relative to other nations on benchmark issues like public safety, health care, housing, education, employment, the economy, energy, and the environment. Key national indicators can help guide strategic planning, enhance government performance and accountability, and encourage more informed authorization, appropriations, and oversight actions.

For years now, international entities like the United Nations, foreign governments, and even some U.S. states and localities have been using indicators to prioritize and target public resources. It's time for the U.S. government to do so.

We at GAO have been working with National Academies of Sciences (NAS), the Organization for Economic Cooperation and Development (OECD), and various independent sector players to promote the development and use of key national indicators in this country and around the world. And I'm hopeful that we'll see them adopted in the near future. To date, a major U.S. foundation has provided some assistance on this effort, but more assistance is needed.

The Fiscal Wake-Up Tour and the Key National Indicators Project were both conceived at forums held at GAO. These so-called Comptroller General, or CG, Forums bring together opinion leaders from different sectors to address current and emerging challenges. The purpose of the forums isn't to reach consensus but to stimulate frank and open discussion. The forums aren't open to the press or the public, and the views of individual participants are confidential. We've found that the forums have stimulated dialogue, built bridges, and spurred additional action by various key stakeholders, including foundations. GAO is planning to hold several forums in the next year on topics like older workers' issues, our health care system, federal disability programs, defense acquisitions, and overall transportation policy.

Government transformation is a slow process, and it's going to take the sustained effort of a lot of players over many years before we're likely to see substantive and sustainable changes. For example, I expect to be speaking out on fiscal issues through the 2008 elections and possibly for the remainder of my 15-year term as Comptroller General, which doesn't expire until October of 2013! But whether we're in government, private industry, academia, or the independent sector, we all have a role to play in this process, and it's important that we do so.

A Role for the Independent Sector

What role can the independent sector play? Fortunately, we have a long and proud history in this country of private citizens who have committed themselves to the greater good by endowing universities, underwriting medical research, establishing museums and cultural institutions, and creating and funding foundations. Today, nonprofits have an opportunity to contribute to the "greater good" in several ways: By conducting or funding research, educating the public, promoting constructive engagement, performing certain functions in cooperation with government, and other activities.

In my view, citizen education and constructive engagement activities are the keys to lasting change. With a commitment to people and causes rather than profits, your organizations are uniquely positioned to foster public awareness and influence public opinion. Nonprofits can also help in the development of credible and nonpartisan solutions on a range of issues, whether it's entitlement programs, taxes, health care, immigration, energy, or education.

As I see it, we're going to need to cultivate a few capable, credible, creative, and constructive leaders who are willing to spearhead change, network with others, and reach across the political aisle. We also need to encourage a constructive dialogue among a range of key stakeholders, from businesses to unions, think tanks to foundations, and public advocacy groups to the media. Employing such a "big tent" approach to both crafting and selling reform ideas is essential.

One step that we need to take soon is the creation of a commission to address entitlement, tax, and other needed reforms and to make recommendations to Congress and the President. This commission could be created statutorily, which is the case in the recent legislation introduced by Senator Voinovich and Congressman Wolf. Alternatively, such a commission could be independent of the political process, perhaps sponsored by one or more foundations and composed of preeminent players whose recommendations couldn't be ignored.

Beyond the need for such a commission, realistically the challenges facing America are too big to solve all at once. Therefore, it's productive to think about specific entry points. For example, there's a tremendous need for independent and authoritative research on many of the issues raised in GAO's 21st century challenges report. Specifically, I believe the nonprofit sector could also help our society answer the broader question of the proper role and mission of government in the 21st century.

On the basis of my experience and exposure, including the reactions that we are getting from the Fiscal Wake-Up Tour, the American people today are desperate for two things: truth and leadership. And on this score, it doesn't matter whether you're a Democrat, a Republican, or an Independent. The difficulty right now is lack of clear, sustained, and committed leadership to show us the way forward. Today, we need effective leaders in all levels of government. Leaders who can craft bipartisan solutions by recognizing that most of America is in "the Sensible Center" from an ideological perspective. But we also need real leadership from the private, academic, and independent sectors.

In my view, real 21st century leaders will need to focus on four key attributes: courage, integrity, creativity, and a commitment to stewardship.

We're going to need leaders with the courage to face the facts, speak the truth, and do the right thing, even when it isn't easy or popular. In other words, leaders who aren't afraid to take the road less traveled.

We're going to need leaders who have the integrity to lead by example and practice what they preach. Leaders who recognize the law represents the floor of acceptable behavior and strive to meet a higher standard.

We're going to need leaders who are creative people, who can see new ways to address old problems, who can help others see the way forward, and who believe in partnering for progress.

Finally, we're going to need leaders who take their stewardship responsibilities seriously. Namely, true leaders who strive try to leave things not just better off but better positioned for the future when they leave their jobs and this earth.

While my message today is serious, things are far from hopeless. America is a great country. Americans are capable and resourceful people, and there is a way forward. We just need good men and women to take up the call for change. This could require a 20-year or more effort. To start, it's essential to make our fiscal situation an issue in the 2008 presidential election. Therefore, the Fiscal Wake-Up Tour plans to visit New Hampshire, Iowa, and other presidential sweeps states next year.

Why? Because in Washington, real leadership can't come just from Capitol Hill. It's also got to come from the White House and Main Street. The fact is you can't lead a country by committee, and Congress, despite its critically important role under our Constitution, is a committee. The next President, whoever he or she may be and whichever party he or she represents, needs to use the bully pulpit of the Oval Office and go directly to the people to push needed reforms. In addition, the three most powerful words in the Constitution—"We the people"—need to come alive. The American people are going to have to become better informed and make their views known. After all, as citizens in a democracy, we are ultimately responsible for what our elected representatives do or do not accomplish. If both those things happen, presidential leadership and citizen engagement, we have a real chance to turn things around sooner rather than later.

As I said as the start of my remarks, America is at a critical crossroads. Some countries with similar challenges have had the courage to make some tough choices, including Australia and New Zealand. Like the United States, these two countries have aging populations. However, unlike the United States, these two countries have stepped up to the plate and dealt with some of their serious long-term challenges, including their overburdened and unfunded public pension and health care programs. Policymakers in Australia and News Zealand have shown that it is politically possible to make difficult decisions that required short-term pain in the interest of long-term gain. If they can do it, we can too!

I'm hopeful that the private, academic, and independent sectors will become more vocal on this issue. The truth is that all sectors of society have a dog in this fiscal fight and transformation effort. If government stays on its current course, we'll all end up paying a big price, especially our kids and grandkids.

Over it's 200-plus years of existence, the United States has faced many great challenges. We've always risen to those challenges, and I'm confident we'll eventually do so this time as well. After all, it's always a mistake to underestimate American resolve when we set our mind to accomplish something.

But we need to act, and act soon. Baby boomers like myself are on course to become the first generation of Americans who leave things in worse shape than when we found them.

Fortunately, such a legacy isn't carved in stone. Turning things around won't be easy, and it's not going to happen overnight. But we all need to be part of the solution. By applying our collective energy, expertise, and experience to looming problems; by making some difficult decisions; and by accepting some degree of shared sacrifice, we can ensure a brighter future for this great nation, for our children and grandchildren, and for those who will follow them.

Thank you for your time and attention.

On the Web

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