
Presentation by
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Fiscal Stewardship and Defense Transformation

Speech before the United States Naval Academy
Annapolis, Maryland
March 8, 2007

I'm delighted to be here this morning to participate in the Naval Academy's National Security Economics Seminar.

When I look around this room, I'm reminded of my son Andy. He's just a few years older than most of you here today. Andy was a midshipman at Villanova, and he graduated from their NROTC program. Andy served as a Marine Corps officer for six years, including a tour in Iraq. My wife, Mary, and I are very proud of him, as I'm sure your parents are proud of each of you.

I'm also reminded of other family members and the life I might have had. My mother's first cousin graduated from Annapolis and was an all-American tailback for Navy. His name was Bobby Tom Jenkins, or "Trigger Tom," as he was known at Annapolis. And my Dad was in the Navy for two years. Both of them were a big influence on my decision in high school to pursue a military career.

In fact, during my senior year of high school, I received congressional appointments to both the Air Force Academy *and* Annapolis. I had dreams of becoming a Marine pilot, maybe even an astronaut. Unfortunately, a hearing loss in my left ear derailed those plans. It was a very big disappointment at the time. But in life, it's better to focus on the future rather than dwell on the past.

After all, in the end, I still ended up a general: the Comptroller General of the United States. And while there are lots of generals and admirals in the military, there's only one Comptroller General of the United States. And you're looking at him.

At my core, I'm a very patriotic person. I expect all of you are as well. I'm also a member of the Sons of the American Revolution. Some of my ancestors fought and died in the American Revolution. As a result, I take a great deal of interest in our nation's proud history and military might. All of you have my admiration and respect for your decision to serve our country.

Today, I'm going to focus on the state of our nation's finances—in both the short and the long term. This subject was highlighted on CBS' *60 Minutes* program this past Sunday evening. As Navy midshipmen, you're probably wondering what that has to do with you. But the fact is the fiscal choices our public officials make today will determine how our government looks in the future. This includes the Defense Department (DOD), the United States Navy, and the United States Marine Corps.

The United States is a great nation. However, we face a range of serious sustainability challenges on several fronts, from fiscal policy to foreign policy, from homeland security to health care, from Iraq to immigration, and from education and energy production to environmental protection. Our country is now the world's largest debtor nation. And our mounting debt is undermining our ability to deal with a range of current and emerging challenges in the 21st century. Our mounting debt is also mortgaging the future of younger Americans like each of you.

On the surface, things seem to be going fine for now. We have steady economic growth, low employment, moderate inflation, relatively low interest rates, and, for the most part, strong capital markets. 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.

We're currently the world's only superpower. And while our system of government is sometimes frustrating and dysfunctional, it's still the best on earth. Clearly, we Americans have much to be proud of and much to be thankful for.

But unless we make significant changes soon, America may look very different in the future. With the looming retirement of the baby boomers, spiraling health care costs, and plummeting personal savings rates, we face unprecedented fiscal risks in the years ahead. The facts on this aren't in dispute. If we stay on our present path, the United States faces a prolonged period of debt and decline. We must not allow this to happen! It will, however, take leadership and bipartisan action to make these tough choices.

The powerful trends I just mentioned are building silently offshore, not unlike a tsunami. We're not in any immediate fiscal danger, but a tidal wave of Social Security, Medicare, and Medicaid spending is headed our way. It's time to stop partying on the beach and start preparing for the deluge. If we don't, our ship of state could be swamped. The difficulty is convincing elected officials and the public that the time to act is now, while there's still no immediate crisis.

America's Four Deficits

Now, let me tell you what's going on with the deficits in Washington and why you need to care. The truth is our country faces not one but four interrelated deficits. Together, these deficits have serious implications for our future role in the world, our future standard of living, our future domestic tranquility, and even our future national security.

The first is the federal budget deficit. Thanks to a combination of out-of-control federal spending, several major tax cuts, and expired budget controls, federal budget deficits have returned with a vengeance. Depending on which accounting method you use, the federal deficit last year ranged from \$248 billion to \$450 billion. The \$248 billion number reflects the unified budget deficit—net of the Social Security surplus—which is the most commonly reported measure. This largely cash-based figure represents the difference between revenues and outlays for the government as a whole in a given year.

But if you look at the net operating cost of the federal government on an accrual basis, which is how companies report, you get a deficit of \$450 billion. This number is more useful and, I would suggest, *more realistic*. Among other things, this number excludes the Social Security surpluses.

While these annual deficit numbers get a lot of press coverage, it's the federal government's mounting liabilities and unfunded commitments that pose the real threat. I'm talking about things like unfunded Social Security and Medicare benefits. In the last six years, the estimated total of these accumulating burdens has soared from about \$20 trillion to about \$50 trillion, primarily due to an increase in unfunded obligations associated with Medicare.

Fifty trillion dollars translates into an IOU of about \$440,000 for every American household. Keep in mind that the median household income in this country is less than \$50,000 a year. For the typical family, it's like having a mortgage that's 9½ times their annual income. And that mortgage doesn't even come with a house! This burden is outpacing the net worth of most Americans and the growth rate of our economy.

The second deficit is our savings deficit. The savings rate among U.S. consumers has been falling for some time. In 2005, for the first time since 1933, the annual personal savings rate in this country reached negative territory. The savings deficit was even greater in 2006. We've returned to savings levels not seen since the depths of the Great Depression. In fact, America has among the lowest overall savings rates of any major industrialized nation.

Clearly, many Americans, like their federal government, are living beyond their means. This trend is particularly alarming in an aging society like ours. Obviously, those people who save more will live better in retirement. And given the problems plaguing our public and private retirement systems, personal investments will be even more critical to your retirement planning.

So if we aren't saving here at home, who's been underwriting our recent national spending spree? The answer is foreign players. And that brings me to America's third deficit: our balance-of-payments deficit. America is simply spending more than it's producing. As you've probably learned in economics classes here at the Academy, large government deficits translate into large trade deficits as well as a weakened dollar. So, it shouldn't surprise you that in 2006, our trade deficit hit a record \$763 billion and the value of the dollar has in fact declined.

While our own savings rates have plummeted, overseas savings rates have not. Overseas money has been pouring into the United States. Thanks to the high savings rates in China, Japan, Korea, and elsewhere, it's been relatively cheap for Americans to borrow. But there's a catch, and it's a big one. Increasingly, we're eating our seed corn and mortgaging our future. Furthermore, some of our leading lenders may not share our long-term national interests. Imagine what would happen to interest rates if some of these investors suddenly cut back on their appetite for U.S. Treasury notes.

Finally, there's America's leadership deficit, which is probably the most serious and sobering of all. At both ends of Pennsylvania Avenue and on both sides of the political aisle, we need leaders who will face the facts, speak the truth, work together, and make tough choices. We also need leadership from our state capitols and city halls, from businesses, colleges and universities,

charities, think tanks, the military, and the media. So far, there have been too few calls for fundamental change and shared sacrifice.

Back in 1966, discretionary spending, which includes defense, represented two-thirds of federal spending. Last year, it was 38 percent and declining. In 1966, defense represented 43 percent of the total federal spending. Last year, it was 20 percent, including the current costs for our operations in Iraq and Afghanistan. [\[See slide #1, page 13\]](#)

Long-range simulations from my agency, the U.S. Government Accountability Office (GAO), are chilling. Just six years ago, we were on a path of fiscal sustainability for well over 40 years. [\[See slide #2, page 14\]](#). Today, based on reasonable assumptions, GAO's simulation model suggests that we will face major economic challenges well before that time. In fact, the simulation model crashes in a little over 40 years. [\[See slide #3, page 15\]](#).

If we continue as we have, policymakers will eventually have to raise taxes significantly or slash government services the American people depend on and take for granted. Just pick a program—student loans, the interstate highway system, our national parks, federal law enforcement programs, and even our armed forces.

The meaning is clear: a crunch is coming. Looking ahead, unless we change course, all federal departments, including the Navy, will face increasing budget pressures. No agency or program can or should count on receiving a blank check with little or no questions asked—even in a time of “war.”

We simply cannot make decisions on national security without reexamining and transforming our military and defense operations in light of 21st century realities. This requires long-term planning, improved internal controls, and added emphasis on transparency and accountability—particularly when it comes to defense acquisitions and contracting. As Pentagon budgets begin to flatten, there will be increasing pressure to make better use of appropriated funds. Spending more money is not always the answer. The real question is, how can we spend our money more efficiently and wisely to achieve the desired outcomes? [\[See slide #4, page 16\]](#).

Defense Transformation

Most of you here are just beginning your careers in the Navy. But as Navy and Marine Corps officers, some of you will be senior military or civilian leaders in the future. For your generation, squeezed budgets are going to be a fact of life. It won't be easy, but here are some thoughts on how to deal with this emerging reality.

Right now, some parts of the defense budget, especially military health care costs, are out of control. This simply isn't sustainable.

Defense transformation can help ensure a more positive future. What do I mean by defense transformation? In a nutshell, I'm talking about a Defense Department that maximizes value and mitigates risk in connection with real national security threats within current and expected resource levels.

I've said this before, and I'll say it again: We have the best military forces on earth. No one else is even close.

However, when it comes to economy, efficiency, transparency, and accountability, it's a very different story. If I were giving out grades, the Defense Department would get a "D" on the business side. Why? Simply put, the Defense Department wastes billions of dollars every year that could be used to boost readiness, improve the quality of life of our military, and mitigate new and emerging security threats.

Unlike fraud and abuse, waste doesn't necessarily involve a violation of the law. It's more about getting poor value for the money, usually because of mismanagement, poor judgment, inappropriate directions, a failure to act, or weak oversight.

GAO regularly updates its High-Risk List of government areas that are especially vulnerable to waste, fraud, abuse, and mismanagement or in need of fundamental transformation. In January, we issued our latest High-Risk List, which flags 27 key trouble spots across government. These areas range from federal oversight of food safety, to modernization of the air traffic control system, to a range of defense related issues. Over the years, GAO has removed several areas from the list. Unfortunately, a number of areas have been on the list since GAO first issued it back in 1990.

Significantly, the Defense Department continues to dominate GAO's High-Risk List. DOD directly or indirectly owns 15 of the 27 high-risk areas. Many of them involve basic business processes, including contracting, financial management, weapons acquisition, and human capital strategy. This last issue—human capital—is extremely important. After all, any organization, including the military, is only as good as its people.

Let's face it, if the military can't reliably attract, motivate, and retain a high-quality workforce, nothing else matters. After all, it's not just superior equipment or technology that gives us the edge on the battlefield. It's the people who represent our nation's "total force" that are our real competitive advantage. At DOD, this includes not just military personnel but also civilian employees and contractors.

When it comes to the war on terrorism, the President has asked our forces to do a job, and they've done it with courage and conviction. Notwithstanding their noble efforts, our military has sustained more than 3,000 deaths and over 20,000 wounded. We're also seeing significant wear and tear on our military equipment and growing replacement costs. The stress and strain on

American forces and equipment has reduced our overall readiness and the availability of reserve personnel.

The Navy and the other services face growing personnel challenges. Given the many demands now being placed on our armed forces, concerns have been raised about our state of readiness, the long-term viability of our all-volunteer force, and the sustainability of the current business model for the guard and reserves. The increasing demands have also caused the government to use military personnel and contractors—particularly in Iraq—in unprecedented ways, some of which may not make sense. The time has come to review and reconsider the role of contractors and how best to contract with, compensate, and oversee them.

As future budgets tighten, DOD will need to get leaner organizationally and work smarter and faster operationally. In many cases, this will require a fundamental rethinking of how the Pentagon is organized and does business. Transforming basic processes and procedures, flattening organizations, cracking hardened silos, and transcending cultural barriers will be essential, not just for DOD but for the entire federal government.

One key area DOD needs to overhaul is its acquisitions process. The sheer cost of new weapons on the drawing board and in production is breathtaking. DOD is now in the midst of a vast effort to modernize and transform its military operations and platforms. DOD currently has plans to invest nearly \$1.5 trillion in new weapons systems.

As we all know, cost overruns on military contracts are nothing new. But what's so alarming today is the frequency and magnitude of cost overruns. Some major projects are as much as 50 percent over budget and years behind schedule.

In this environment, even modest cost overruns can be incredibly expensive. For example, let's assume there's 10 percent cost growth on the Pentagon's planned investment budget for new weapons. While 10 percent cost growth may be a somewhat conservative estimate, on \$1.5 trillion, it represents an additional \$150 billion.

So what does \$150 billion buy you? With \$150 billion, we could run the Department of Justice, including the FBI and the entire federal prison system, for the next six years. With \$150 billion, we could fund the Head Start program for 22 years. With \$150 billion, we could have paid for the entire Apollo space program and still had money left over.

Alternatively, \$150 billion would buy the military another 1,700 F-18 Super Hornets, or 300 littoral combat ships, or about 60 Virginia-class submarines. Put another way, all active duty personnel in the Navy, including midshipmen, could get a onetime bonus of \$437,000. Don't get excited, that bonus is theoretical, not reality.

Sometimes, the Pentagon buys what some want rather than what we need. For example, some weapons are critical to achieving the military's objectives. But others are more of a wish list of

the latest and greatest technology. And as budgets grow tighter, the military is going to have to distinguish unlimited wants from true needs based on credible current and future threats. In addition, DOD will also have to consider which platforms and initiatives are both affordable and sustainable over time. Candidly, Congress sometimes contributes to these dual challenges through earmarks or other actions. As a result, many parties need to change their behavior as we move forward to create a better future.

All too frequently, the Pentagon rushes into the production of weapons systems with unproven technology. Time and again, we've seen this risky strategy backfire, with the military forced to retrofit planes, tanks, and ships at great expense. This results in wasted money that could have been used to meet real needs.

All too often, government workers aren't held accountable for unethical or unsuccessful actions. Similarly, contractors rarely pay a price for poor outcomes. In fact, they sometimes get rewarded. For example, contractors on the F-22 A fighter jet received more than 90 percent of eligible performance bonuses despite being way over budget and behind schedule. Bonuses like this don't pass the straight face test and must stop.

Weak program management and inadequate oversight have contributed to the problem. Too often, military officials have too little authority over specific weapon systems. There's also been frequent turnover among key program managers. Furthermore, a recent GAO report found that the Pentagon now has 40 percent fewer staff devoted to weapons acquisition and oversight than it did in 1989.

Currently, there's too little coordination among the armed forces when it comes to planning, budgeting, and execution. Candidly, the program planning and acquisition processes haven't caught up with the military's joint, or purple, approach to fighting wars.

The truth is, costly Cold War weapons often don't work as well against the type of asymmetric threats we're seeing in Iraq and Afghanistan. When you're dealing with IEDs, snipers, and suicide bombers, you need equipment like body armor and heavily reinforced vehicles. Unfortunately, this isn't necessarily where the taxpayers' money has been going.

Changing how the military does business will require a difficult cultural transformation and a number of basic organizational and operational changes. Much of government today is too hierarchical, process oriented, siloed, and self-absorbed. Government must become flatter, more results focused, more partnership oriented, and more externally aware. Frankly, we faced this challenge at GAO, and we addressed it head on and with success.

I think several major, complex, and challenged federal agencies would benefit greatly from having a person on point to help lead the overall business transformation efforts. Lately, I've been urging the establishment of a chief management officer (CMO) at selected major federal

departments, including DOD. This individual could help introduce a more strategic and integrated approach to key business transformation challenges.

And I want to make a key point here: Throughout the government, including the military, there's far too little accountability for mismanagement and poor judgment. The outrageous situation at Walter Reed brought this point home in very human terms. To treat our returning heroes this way is simply a disgrace. Candidly, the type of accountability that we are now seeing in connection with Walter Reed is a rare exception rather than the rule.

But it's also important to hold DOD accountable on other measures, particularly efficiency and effectiveness. It's not acceptable to pay for something that's not delivered. It's not acceptable when you don't get what you've been promised. It's not acceptable to spend funds without regard to price or value. It's not acceptable to duplicate projects that are being undertaken elsewhere within the same department.

Average citizens should have confidence that their taxpayer dollars are being spent wisely. Wasted funds not only undermine our ability to meet real needs. Wasted funds also undermine public trust and confidence in government.

At DOD, greater accountability requires a fundamental cultural transformation that's based on two-way communication and continuous improvement. After all, you can learn a lot by listening. That doesn't mean you should just follow popular opinion. As President Harry Truman once asked, "How far would Moses have gone if he had taken a poll in Egypt?" Nonetheless, I think the Navy and the other services would benefit from more feedback from all levels.

In the final analysis, defense transformation depends on having a compelling vision coupled with strong and sustained leadership. It also requires employing a more strategic, forward-looking, integrated, and results-oriented approach to addressing a range of current and emerging military challenges within current and expected resource levels. At DOD and elsewhere in government, bad habits can be overcome. But it's going to take a concerted effort by many players over many years before we can achieve real and sustainable success.

A Fiscal Way Forward

Beyond defense transformation, our nation needs to take steps to return us to a more prudent and sustainable fiscal path. By nature, I'm an optimist and a person of action. I don't believe in simply stating a problem. I also think it's important to state a possible way forward

In my view, the first order of business should be to state the facts and speak the truth to the American people. For starters, Washington needs to improve transparency in its financial reporting and budgeting practices. As the federal official who signs the audit report on the government's financial statements, I'm here to tell you our government's financial condition is worse than advertised.

Current federal financial reporting and budgeting provides policymakers and the public with an incomplete and even a misleading picture. A lot of press coverage focuses on year-to-year deficit numbers. And as I mentioned earlier, no matter which number you pick, our current and projected deficit levels *are* both big and bad.

We've all heard the rhetoric. We'll be just fine if we can just get rid of congressional earmarks, foreign aid, or NASA missions back to the moon and on to Mars. Similar arguments are being made for eliminating the 2001 and 2003 tax cuts. But candidly, these actions won't get the job done. In fact, even shutting down the entire Department of Defense wouldn't come close to closing our long-range fiscal gap.

We aren't going to close our fiscal gap through strong economic growth, massive spending cuts, or huge tax increases. The gap is simply too great, and the math and politics just don't work.

It's essential that we impose meaningful budget controls on both the tax and the spending sides of the ledger. These controls should apply to both discretionary and mandatory spending. Additional reforms are needed in connection with congressional earmarks, emergency appropriations, and supplemental spending.

Members of Congress need more explicit information on the long-term costs of spending and tax bills—*before* they vote on them. The Medicare prescription drug benefit passed in 2003 is one of the most expensive government entitlement programs of all time. It's also a glaring example of what's wrong with the current legislative process. The Medicare prescription drug bill came with an \$8 trillion price tag, but that fact wasn't disclosed until after the bill was passed and signed into law.

We also need to reconsider the current scope and structure of the federal government. Today, about 62 percent of federal spending and most tax preferences are on autopilot and based on conditions that existed before most of you were born. I'm talking about conditions dating back to when Harry Truman, Dwight Eisenhower, and John Kennedy were in the White House.

Once federal programs or agencies are created, the tendency is to fund them in perpetuity, regardless of changing needs and circumstances. This is what I mean when I say our government is on autopilot. Washington rarely seems to question the wisdom of its existing programs and politics. We simply add new programs and initiatives on top of the old ones. As President Ronald Reagan once quipped, a government program is "the nearest thing to eternal life we'll ever see on this earth." This is a key reason our government has grown so large and is so expensive.

American families regularly clean out their closets and attics. Surplus items are either sold at yard sales or given to charity. Unfortunately, when it comes to federal programs and policies, our government has never undertaken an equivalent spring cleaning. When our government does finally do a spring cleaning, I wouldn't recommend following the Pentagon's lead. GAO reports

have found that DOD has a problem with selling existing inventory for pennies on the dollar while buying more of the same items at full price.

We need nothing less than a top-to-bottom review of federal programs and policies. Congress and the President need to decide which of these activities remain priorities, which should be overhauled, and which have simply outlived their usefulness.

Entitlement reform is especially urgent. Unless we reform Social Security, Medicare, and Medicaid, these programs will eventually crowd out all other federal spending, including defense. Based on historical federal tax levels, by 2040 our government could be doing little more than sending out Social Security checks and paying interest on our massive national debt.

Fortunately, concern is growing. Members of Congress on both sides of the aisle have started asking some pointed questions about where we are and where we're headed. Even the Administration now acknowledges that deficits matter. In recent statements, the President has pledged not just to balance the unified budget by 2012 but also to start tackling our large and growing unfunded entitlement promises.

To get things moving, a capable and credible bipartisan commission could address Social Security, tax policy, health care, budget reforms, and other key areas. Such a commission would be well positioned to send the President and Congress a balanced package of reforms that could lead to legislation. I'm not talking about reinventing the wheel. Instead, the commission could draw on the work of earlier commissions, existing groups, and prominent individuals. The commission could be created statutorily. Or, alternatively, such a commission could be independent of the political process. At a minimum, the commission's efforts would spur more informed debate going into the 2008 election cycle.

Citizen Education and Engagement

Citizen education and public engagement are also essential. The American people need to become more informed and involved when it comes to the problems facing our country. They also need to become more vocal in demanding change. Younger Americans like you need to speak up because you and your children will ultimately pay the price and bear the burden if today's leaders fail to act.

The good news is younger Americans turned out in large numbers for November's mid-term election. From Iraq to immigration, from ethical lapses to management failures and fiscal irresponsibility, the public's dissatisfaction with the status quo was abundantly clear. But looking toward 2008, it's essential that the public and the press hold candidates accountable for their position on our large and growing fiscal and other sustainability challenges.

This is why I and others have been speaking out publicly about our nation's worsening financial condition and long-term fiscal outlook. Beginning in the fall of 2005, I started going on the road

with representatives of the Concord Coalition, the Brookings Institution, and the Heritage Foundation as part of a “Fiscal Wake-up Tour.” So far, we’ve held town-hall meetings at colleges and universities and other public venues in 19 cities across the country. Depending upon which panel discussion you choose to join later today, you may be hearing from some of these other tour participants.

During the tour, I’ve found that the American people are hungry for two things: truth and leadership. The folks on Main Street are tired of spin. They just want some straight talk about what’s going on and they’re looking for results not rhetoric. They also want public officials with the courage to lead change and who are willing to partner with others on a bipartisan basis to solve problems.

On this score, it doesn’t matter whether you’re a Democrat, a Republican, or an Independent. The problems I’ve been describing aren’t partisan in nature, and the solutions won’t be either. We need ideas and proposals that will appeal to the “sensible center” rather than the “ideological extremes” on the left and the right.

In my view, successful leadership today requires several attributes, including courage, integrity, and creativity. We need leaders with the courage to speak the truth and do the right thing, even if it isn’t easy or popular. We need leaders who have the integrity to lead by example and practice what they preach. Leaders who do what’s right rather than what’s merely permissible under the law. We also need leaders who are creative people, who can see new ways to solve old problems, who will partner for progress, and who can help others see the way forward.

A commitment to stewardship is also essential. Successful leaders also need to take a long-term view. We’ve had a tradition in this country of trying to leave things not just better off but better positioned for future generations. The people who built our great country and this magnificent institution understood that. It’s called stewardship. More leaders today need to realize that we can’t just live for the day. We also need to prepare for a better tomorrow.

Three countries with challenges similar to ours—Australia, Canada, and New Zealand—have had the courage to make tough choices. Like the United States, they have aging populations. Unlike the United States, these three countries have stepped up to the plate and dealt with some of their long-term challenges. Among other things, they’ve reformed their social insurance programs. The efforts by policymakers in these three countries show that it is politically possible to make difficult decisions that require short-term pain in the interest of long-term gain.

America is a great nation, probably the greatest in history. But if we want to stay great, we have to face facts, recognize reality, heed the lessons of history, and make needed changes. I think there are some important parallels between American’s current situation and another great power from the past: Rome. The Roman Empire lasted a thousand years, but only about half that time as a republic. The Roman Republic fell for many reasons, but three reasons are worth remembering: declining moral values and political civility at home, an overconfident and

overextended military in distant lands, and fiscal irresponsibility by the central government. Sound familiar? In my view, it's time we learned from history and took steps to ensure the American Republic stands the test of time.

Please don't misunderstand my message this morning. Things are far from hopeless. Yes, it's going to take some tough choices on a range of important issues. But I'm convinced America can and ultimately will rise to the challenge, just as we did during World War II and other difficult times in our past. Meaningful action can put us on the path toward a more positive future, one with higher economic growth, reasonable tax levels, a strong defense, sustainable social insurance programs, greater confidence in government at home, and greater respect for America abroad.

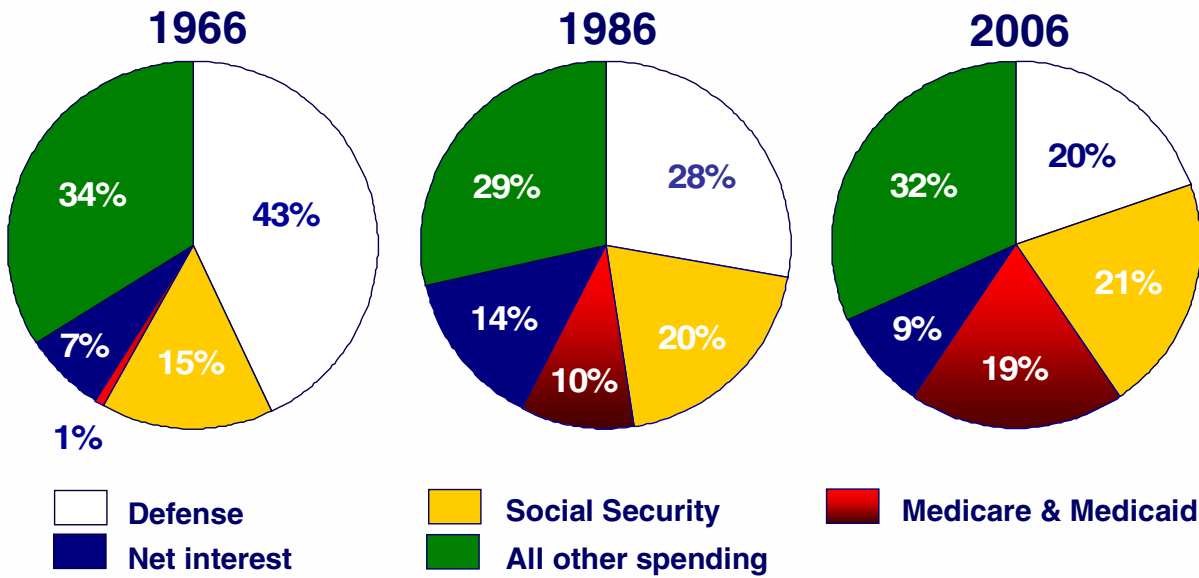
President Bush still has time to step up to the plate and address our fiscal and other sustainability challenges. But it's imperative the next President, whoever he or she may be and whichever party he or she represents, needs to use the "bully pulpit" of the Oval Office to push needed reforms. If this happens, we have a real chance to turn things around, save our future, and keep America great.

In the case of the United States, effective leadership—the kind that leads to meaningful and lasting change—has to be broad-based. It must come from the White House and Capitol Hill and it must be bipartisan. But before that will happen, the three most powerful words in our Constitution—"we the people"—need to come alive. The American people need to take more interest in our fiscal challenge. And they need to make their views known as we head toward the 2008 elections.

In closing, one of my favorite presidents, Theodore Roosevelt, firmly believed that it was every American's responsibility to be active in our civic life. Democracy is hard work, but its work worth doing. As TR once said, "fighting for the right [cause] is the noblest sport the world affords." I hope that you'll join me in leading by example and trying to make a positive and lasting difference not just for today, but also for tomorrow.

Thanks for your attention this morning, and thanks again for your commitment to serve our country. May God bless you, this institution, and the United States of America. And now, I'd be happy to answer your questions.

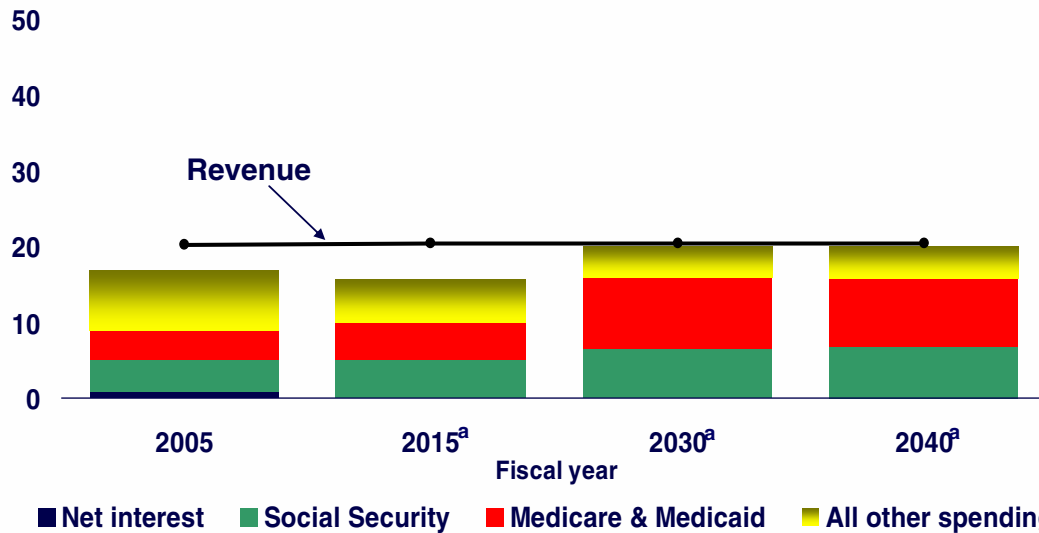
Composition of Federal Spending



Source: Office of Management and Budget.
Note: Numbers may not add to 100 percent due to rounding.

Potential Fiscal Outcomes under Baseline Extended (January 2001) *Revenues and Composition of Spending as a Share of GDP*

Percentage of GDP



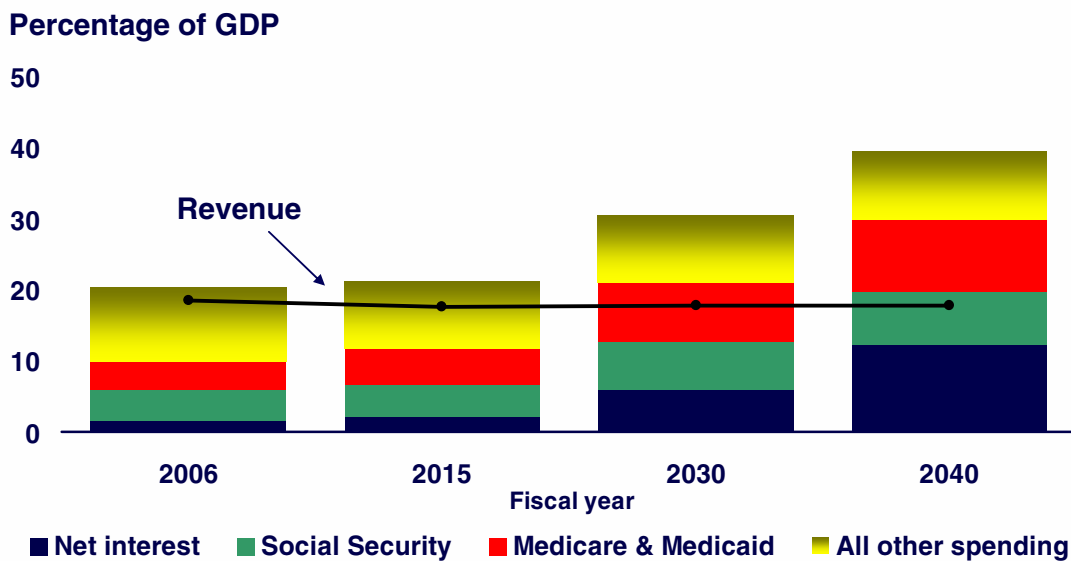
Source: GAO's January 2001 analysis.

Notes: Revenue as a share of GDP increases through 2011 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2011, revenue as a share of GDP is held constant—implicitly assuming action to offset the increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.

^aAll other spending is net of offsetting interest receipts.

Potential Fiscal Outcomes

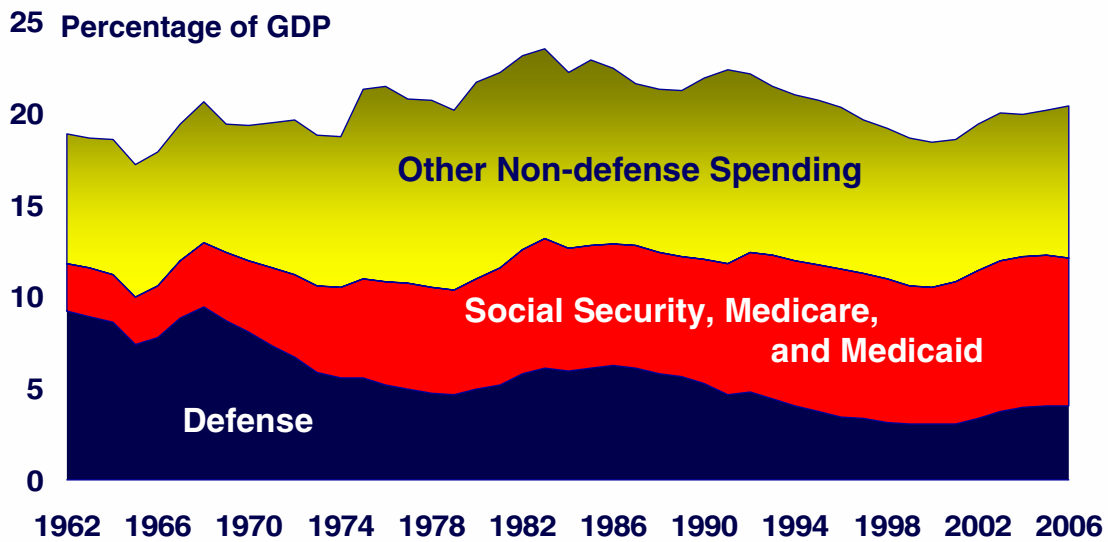
Alternative Simulation—Discretionary Spending Grows with GDP and Expiring Tax Provisions Extended (January 2007)
Revenues and Composition of Spending as a Share of GDP



Source: GAO's January 2007 analysis.

Notes: AMT exemption amount is retained at the 2006 level through 2017 and expiring tax provisions are extended. After 2017, revenue as a share of GDP is held constant—implicitly assuming that action is taken to offset increased revenue from real bracket creep, the AMT, and tax-deferred retirement accounts.

Federal Spending as a Share of GDP 1962-2006



Source: OMB.

