
Presentation by
the Honorable David M. Walker
Comptroller General of the United States

The Evolving Role of Supreme Audit Institutions in Addressing Fiscal and Other Key Sustainability Challenges

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Thank you, Mr. Honma for that kind introduction. I'd also like to thank Mr. Otsuka for the invitation to speak to you today.

It's an honor and a privilege to be with you today. As Mr. Otsuka said, I am the first international speaker in the 20-year history of this conference. I also understand that 2007 represents the 60th anniversary of the founding of the Board of Audit. Congratulations on both of these key milestones.

Tokyo is the first stop on my 1-week business trip to Asia. I leave for China tonight and then go to Korea next week before returning to Washington. I don't need to tell any of you that Asia has a long and impressive history. But Asia's future may be even more impressive. Today, the Pacific Rim is modernizing and growing at an incredible rate. More and more Asian nations, including Japan, are playing a pivotal role in the world's economy, both as exporters and as investors. In fact, Japan and other Asian nations are now some of the largest holders of U.S. government debt. In this regard, thank you for lending us some of your savings. Most Japanese people have a much better appreciation of the importance of savings than most Americans do. As you know, most Americans are great spenders, but poor savers. Fortunately, I am not a typical American in this regard. Unfortunately, neither of our national governments sets a positive example in this regard.

But whether we're talking about the industrialized world or the developing world, every nation faces the challenge of change. On so many fronts in recent years, from new technologies, to capital markets, to public health, the environment, and many other areas, we're seen profound developments. Many of them demonstrate a growing interdependency. And the pace of change and the degree of interdependence is increasing with the passage of time.

Some people see change as a bad thing. Yet change is essential for progress and innovation. Entities that fail to successfully adapt to changing circumstances can see their value diminish and even their very existence threatened over time.

Nearly a century ago, one of my favorite U.S. Presidents, Theodore Roosevelt, said, "We have to, as a nation, exercise foresight ... and if we do not exercise that foresight, dark will be the future." My talk today is about the foresight role that more Supreme Audit Institutions (SAI) and other key accountability organizations should be undertaking.

In addition to our normal oversight and insight functions, SAIs like the GAO in the United States and the Board of Audit in Japan, can and should educate government leaders about emerging trends and challenges. As independent, professional, fact-based, and non-partisan organizations, SAIs are uniquely positioned to speak truth to power and help policymakers address key current and emerging challenges in a timely and informed manner. SAIs have credibility, in part, because of their independence. In addition, SAI's should have only one agenda: the public good.

It's important to recognize that in today's environment, events can easily outpace the best intentions of policymakers. To effectively manage change and capitalize on related

opportunities, government policymakers need to take a more strategic, integrated, and disciplined approach to policymaking. SAIs can help to foster this approach to policymaking. First, by advising policymakers to plan ahead and to focus more on the future. Second, by urging policymakers to act sooner rather than later on key sustainability challenges—before they reach crisis proportions. Third, by ensuring that policy decisions are evidence-based and reflect a clear understanding of various collateral effects and longer-term impacts.

The challenges we face in the 21st century can be incredibly complex and, in many cases, they represent shared challenges. As a result, progress on many of these issues will require the collaboration of many players, inside and outside of government, both domestically and internationally, over many years. This means that SAIs and other accountability professionals should “lead by example” and “partner for progress” both domestically and internationally to help share knowledge, replicate successes, and avoid making common mistakes. At the same time, public officials must look beyond today’s problems and also consider what lies ahead.

Too many policymakers in my country and elsewhere are consumed with the here and now. They suffer from myopia or shortsightedness. Many also suffer from tunnel vision by focusing on one issue at a time. I’m sure many of you have seen this first hand: Some elected officials become fixated on the issue of the moment, their own narrow span of control, and their constituents’ current wants rather than their nation’s or society’s overall needs. Many can’t see beyond the next election. In the process, some elected officials can lose sight of the big picture and the greater good.

This myopia and tunnel vision has contributed to one of the most serious problems facing my country: America’s growing, long-term fiscal imbalance. Largely due to the aging of the baby boomers, individuals born from 1946-1964, coupled with rising health care costs, the United States faces a tsunami of spending that is just on the horizon. The facts on this aren’t in question. However, at the present time U.S. policymakers are not taking enough steps to prepare for the deluge that’s coming. This must change and the sooner the better for both the United States and the world.

Many government leaders in Washington, D.C., have decided to live for today rather than prepare for tomorrow. We’ve heard few calls for meaningful reforms or shared sacrifice as the wave builds silently but surely offshore. In fact, just the opposite has been happening. Despite our long-range fiscal imbalance, in recent years the U.S. federal government has pursued an unsustainable policy of promoting additional spending increases while expanding tax cuts. Among other things, the United States should impose budget controls and take steps to increase transparency and accountability relating to fiscal responsibility and inter-generational equity issues. We are working with a number of elected officials on a bi-partisan basis in supporting such an effort.

In less than a decade, the U.S. government has gone from budget surpluses to budget deficits. Depending on which accounting method you use, the federal deficit last year ranged from \$248

billion to \$450 billion, of which about \$100 billion related to Iraq and the current “Global War on Terrorism.”

But today’s deficits aren’t the problem. After all, our federal deficits have declined for 3 straight years. Rather, the real threat is the federal government’s mounting liabilities and unfunded commitments for federal entitlement programs like Social Security, Medicare, and Medicaid. These represent our major government-sponsored retirement, disability, and health insurance programs. In the last 6 years alone, the estimated present value of these combined items has soared from about \$20 trillion to about \$50 trillion.

What this means is the U.S. government has made a whole lot of promises that, in the long run, it can’t possibly keep. And here’s why: Fifty trillion dollars translates into an IOU of about \$440,000 for every American household. Keep in mind that the median household income in the United States is less than \$50,000 a year. The growth of this burden is outpacing the net worth of most Americans and the growth rate of our economy.

Today, America is on an imprudent and unsustainable long-range fiscal path. Long-range simulations from my agency, the U.S. Government Accountability Office (GAO), are chilling. If we continue as we have, U.S. policymakers will eventually have to raise taxes dramatically or slash government services that the public has grown to depend on.

Our growing indebtedness is also undercutting U.S. flexibility to change course and tackle new 21st century challenges. For example, caring for our aging population is going to be enormously expensive. I know this is also a problem in several Asian countries, including Japan, and Western Europe as well. Many retirees are expected to live far longer and spend more years in retirement than their parents and grandparents. This is going to put unprecedented demands on America’s pension and health care systems.

At the same time, billions of dollars are needed to modernize everything from our nation’s highways, airports and bridges, to water and sewage systems. America faces similar sustainability challenges in a range of other areas, including our elementary and secondary education system, current immigration policy, increasing energy dependence, growing environmental concerns, the conflict in Iraq, and our badly broken health care system.

With regard to health care, the United States is spending much more per capital than any other nation on earth and yet our outcomes are of major concern. For example, we have below average life expectancy, above average infant mortality, and high medical error rates for an industrialized nation. We also have the greatest percentage of uninsured population of any major industrialized nation and we’re number one in obesity which does not be well for future health care costs. The truth is that our current health care system is broken and will require major reforms in installments over the next 10 years or more.

In my view, well-run and adequately resourced SAIs like GAO and the Board of Audit have a key role to play in putting these key sustainability challenges into perspective. We can provide lawmakers and the public with evidence-based information on the outcomes of current policies and programs. We can also help policymakers by providing options on various policy choices and the trade-offs that will be required in the future some of which are likely to be based on the experiences of other countries. Furthermore, we can provide information to help policymakers prioritize issues and reach consensus on what outcomes citizens want governments to achieve. At the same time, we must maintain our independence, ensure that elected officials are the ones who make the decisions on key policy choices, while also holding policymakers accountable for achieving real results in an economical, efficient, effective, ethical, and equitable manner.

SAIs have traditionally been about government oversight. And clearly, financial, compliance, and other traditional audits are an important check on waste, fraud, and abuse. Likewise, program evaluations and best-practice studies can help improve government efficiency and effectiveness. But today, SAIs need to be doing more than routine oversight of day-to-day government operations.

I'm reminded here of the psychologist Dr. Abraham Maslow's hierarchy of needs. Maslow believed that people first must meet their "self-preservation" need for things like food, shelter, employment, and personal safety. Once these basic needs are met, individuals then want to satisfy higher needs. At the top of Maslow's hierarchy is self-actualization. Those individuals reaching this stage have made the most of their God-given abilities. These individuals have become the best they can be.

When it comes to supreme audit institutions, there's a similar hierarchy. (See attachment.) Envision a pyramid with six levels, each describing a mission. At the bottom is the most basic mission every government SAI should hope to achieve—fighting corruption. It's essential that civil servants are honest and committed to the public good. After all, any government run by corrupt officials isn't going to accomplish much, other than picking the pockets of its own people.

The next level in the SAI pyramid is enhancing transparency, which helps to facilitate progress on all fronts. The third level is accountability, and I'd include here efforts like traditional audits and compliance reviews. The idea is that all aspects of government should be accountable to the taxpayer for the results they achieve with the resources and authorities they have been given. At a minimum, every SAI, whatever its budget, whatever its expertise, should be fighting corruption, ensuring transparency, and pursuing accountability.

The fourth level is enhancing government economy, efficiency, ethics, equity, and effectiveness. The fifth level is providing policymakers with insight and options to make government work better by refining programs, consolidating redundant efforts, or adopting best practices.

The sixth and final level in the pyramid is foresight, a function that more mature and experienced SAIs should consider undertaking: I'm talking about helping policymakers focus on the future. Government decisionmakers need to develop a long-term perspective, understand the big picture, and appreciate the collateral implications of their actions. Too often, it's the immediate crisis that gets all the attention. Policymakers find it easier to ignore issues whose impact may not be felt for several years, even decades. However, our government's historical "crisis management" approach to dealing with selected major public policy challenges is no longer viable. The stakes are simply too high.

With their reputations for professionalism, objectivity, integrity, and reliability, SAIs are uniquely positioned to alert public officials to emerging trends and future challenges. By encouraging policymakers to face up to these problems sooner rather than later, SAIs can help their governments avoid costly crises in the future. Similarly, SAIs can also help educate policymakers about the true costs and potential benefits of various policy choices.

At every level of the pyramid, SAI work needs to be balanced, constructive, and nonpolitical in its approach. SAIs shouldn't simply point out what's wrong in government. It's also important to highlight policies and practices that are working well. By sharing success stories and describing best practices, SAIs are more likely to get their governments to transform how they do business. A balanced and constructive approach to oversight is also more likely to build public trust and confidence in government.

Created by statute in 1921, GAO is a good example of a mature SAI. In recent years, largely due to my personal emphasis, GAO has made it a priority to provide Congress and the American people with information on future trends and emerging challenges that should be addressed. For example, as Comptroller General I've been trying to raise awareness about my country's long-range fiscal imbalance and the need to address several other large and growing sustainability challenges that I mentioned previously, including the current direction of policies relating to health care, education, energy, the environment, immigration, infrastructure, and Iraq, just to name a few. In fact, just yesterday, the *Financial Times* published an op-ed piece that I authored in all of its global editions. The piece addressed the need for the United States to learn the lessons of history while preparing for the future.

GAO and I take seriously our responsibility to speak out on a range of complex and sometimes controversial issues. It's not always an easy job, and some people don't like what we have to say, but as U.S. President Harry Truman once said, "If you can't stand the heat, get out of the kitchen." When it comes to key issues of concern to Congress and the nation, you can rest assured that GAO and I have no plans to stop speaking truth to power. After all, if the head of an SAI isn't willing to speak up, who will?

Today, GAO is working hard to fulfill its foresight role. We're trying to help Members of Congress better understand the trends and challenges affecting the United States and its position in the world. As I noted earlier, many countries, including Japan, share a number of these

challenges, and, as a result, we need to work together to solve them. GAO is also trying to help law-makers grasp the long-term implications of current policy choices, especially when it comes to costs.

Our goal is for Congress to expand its horizons and act more often in a timely, evidence-based, and integrated way. We want policymakers to better understand where we are, how we may look 40 or even 50 years out, and how various policies and programs can have ripple effects, across sectors and over time.

To this end, in 2005 GAO published an unprecedented report called “21st Century Challenges,” which asks probing, sometimes provocative questions, about current government policies, programs, and practices. The report brings home how much of the U.S. government reflects social and spending priorities that date back to the 1950s and 1960s. More and more, we are spending finite taxpayer dollars on activities that are of questionable value today. I commend this report to you because I have little doubt that much of its content would also be of interest to other countries.

Our current path in several key areas is both inappropriate and fiscally irresponsible. It’s also alarming given the emerging challenges that I’ve been discussing today. Significant resources will be needed to address many of these areas. The math is clear and compelling: every dollar we spend on an outdated, unneeded, or ineffective program or policy is a dollar we can’t use to meet new challenges. By freeing up these resources, the U.S. government be better positioned to meet current needs and capitalize on future opportunities.

To this end, a top-to-bottom review of federal programs and policies is essential. Congress and the President need to decide which federal activities remain essential, which should be overhauled, and which have simply outlived their usefulness. Policymakers will be much better positioned to do so if they have the benefit of GAO’s professional, objective, fact-based, nonpartisan, non-ideological, fair, and balanced work.

So what’s been the reaction of policymakers to GAO’s “21st Century Challenges” report? I’m pleased to say we’re seeing hopeful signs in several areas. For example, concern is growing about America’s financial condition and longer-range fiscal outlook. For example, recently proposed legislation would convene a commission of public and private-sector leaders to study entitlement and tax reform issues and recommend changes. In addition, just last week, a major presidential candidate announced their intention to make our fiscal and other key sustainability challenges facing the United States a centerpiece of their campaign.

To keep the momentum going, GAO published two key reports this past April. The first was our updated strategic plan. The second was our first-ever strategic themes booklet, which examines the key forces affecting the United States and other countries. I also commend the strategic themes document to all of you because it addresses issues that many other countries also need to address. All of the documents that I have mentioned are on our Web site at www.gao.gov.

In addition to publishing this strategic themes document, GAO is working with our National Academies, the Organization for Economic Cooperation and Development, and others to make the adoption of key national indicators a reality in the United States and around the world. In this regard, I'm pleased to say that key national indicators will be one of two themes covered in this year's triennial INTOSAI congress in Mexico City. The other theme will deal with public debt and fiscal responsibility issues. Both of these themes are timely and important.

Timely and reliable performance and foresight information can help enhance government performance, ensure accountability, improve the future, and strengthen democratic values. With better information about emerging trends, average citizens tend to have a better grasp of where we are, where we're headed, and how we compare to others. In my view, an informed electorate is more likely to support leaders who are prepared to make difficult decisions. An informed electorate is also more likely to accept shared sacrifice today to help build a better tomorrow for our children and grandchildren.

Some nations in this region have already acted to address their long-term fiscal challenges. Two good examples are Australia and New Zealand. Like the United States, they have aging populations. Unlike the United States, they have stepped up to the plate and dealt with some of their most serious challenges. They have both made some tough decisions that involved short-term pain in the interest of long-term gain. Among other steps, they've reformed their overburdened public pension and health care systems. The efforts by policymakers in Australia and New Zealand show it's politically possible to take the longer view and make difficult decisions that are in a country's long-term best interests.

The truth is Japan has much higher deficits and debt levels as a percentage of the economy than the United States. You also have some of the same demographic and fiscal challenges that we do, in some cases, bigger ones. Japan also needs to be concerned with fiscal responsibility and inter-generational equity.

When you return to your offices, I hope you'll give some thought to providing your government officials with greater foresight about the future. Whether we're talking about Washington, Tokyo, Beijing, or Seoul, immediate policy results can no longer be the sole benchmark of success. It's time more policymakers consider the needs of their children and grandchildren and take steps to build a brighter future for our countries and our citizens.

In closing, please don't get me wrong. Despite our many key sustainability challenges, America is a great nation and we have dealt successfully with many great challenges in its past. And in the end, I'm convinced America will do so again when it comes to our fiscal and other key sustainability challenges. Difficult public policy decisions are unavoidable, but SAIs can help elected officials make more timely and informed choices. Let's do our part, and hopefully others will do their part as well—and the sooner, the better.

Thank you for your time and attention.

Appendix

Figure 1: Supreme Audit Institution Maturity Model



Source: GAO.

On the Web

Web site: www.gao.gov/cghome.htm

Contact

Susan Becker, Acting Manager, Beckers@GAO.gov (202) 512-4800 U.S. Government
Accountability Office, 441 G Street NW, Room 7149 Washington, D.C. 20548

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