
Presentation by
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America's Fiscal Future: A Call for Citizen Involvement

The Flory Public Policy Lecture
McPherson College
McPherson, Kansas
March 11, 2007

Thank you, President Hovis, for that kind introduction.

I am honored to deliver this year's Flory Lecture. As you know, this lecture is named for Dr. Raymond Flory, who was a fixture on this campus for more than 50 years and a big believer in public service. I had dinner earlier with Rowena Flory and several other Flory family members, and I'm delighted they were able to join us this evening.

I'm here at McPherson College for two key reasons. First, Ron Hovis and I are friends and go back a long way. I think I first met Ron when we were both on the American Benefits Council Board.

The second reason I'm here is because of Elmer Staats. Elmer was my predecessor once removed as Comptroller General of the United States and head of the Government Accountability Office (GAO). He's widely regarded as a model public servant, and he's also become a good friend.

His professional ability and personal integrity earned him the confidence of four U.S. Presidents—Truman, Eisenhower, Kennedy, and Johnson. Elmer served in high-level government posts for nearly four decades, both at GAO and the old Bureau of the Budget, which is now OMB. After retiring from government, Elmer ran the Harry S. Truman Scholarship Fund. And, in fact, at nearly 93, Elmer is still a remarkable man.

Elmer graduated from McPherson College back in 1935. When I told him I'd be giving this year's Flory Lecture, Elmer spoke fondly of his years here and he asked me to convey his best regards.

Elmer is largely responsible for a major modernization of the GAO. Under Elmer's direction, GAO moved from financial auditing into program evaluation, which looks at whether government programs are meeting their objectives and the needs of society. GAO also began to issue the so-called "Yellow Book," which represents generally accepted government auditing standards. Finally, Elmer encouraged GAO to build ties to the international auditing community. In fact, he's the reason the United States joined the International Organization of Supreme Audit Institutions (INTOSAI).

Tonight, I'm going to talk about a number of emerging challenges facing the United States. Many of these are complex issues that were unimaginable only a generation or two ago. I'm also going to talk about the difficult public policy choices that must be made to secure our nation's future.

In many respects, the unusually prosperous and perhaps more predictable way of life that came after the Second World War has drawn to a close. I think it's useful to reflect on how much things have changed in recent decades and how much things continue to change.

Most of the students here tonight probably have no first-hand memory of the Cold War. Your knowledge of the Berlin Airlift, the Cuban Missile Crisis, and even the Vietnam War probably comes from history books or the History Channel.

Your world has been defined by more recent development, such as the invention of the microcomputer and the spread of the AIDS virus. One of the challenges before us is to maintain a government that is effective and relevant to your generation and to future generations.

I'm going to start with possibly the most profound trend facing America, and that's demographics. To put it simply: Our population is aging and living longer. At the same time, our population is becoming far more diverse. Walk into elementary schools in many major U.S. cities and you'll see students who come from homes that speak every conceivable language, from Spanish to Vietnamese to Arabic.

Despite increased immigration, U.S. workforce growth is expected to slow dramatically during the next 50 years. Like most industrialized nations, the United States will have fewer full-time workers paying taxes and contributing to federal social insurance programs. At the same time, growing numbers of retirees will be claiming their Social Security, Medicare, and Medicaid benefits. Many of these retirees will live far longer than their parents and grandparents. Today, there about 55,000 Americans who are 100 years old or older. By 2050, as many as a million Americans may have reached this milestone. In a nutshell, the retirement of the baby boomers, and I'm one of them, is going to put unprecedented demands on both our public and private pension and health care systems.

The problem is that in the coming decades, there simply aren't going to be enough full-time workers to promote strong economic growth or to sustain existing entitlement programs. Yes, Social Security has a problem, but our Medicare and health care challenges are multiple times worse.

At the same time, American companies are cutting back the retirement benefits they're offering to workers. This means if we hope to live well during our "golden years," all of us are going to have to plan better, save more, invest more wisely, and resist the temptation to spend those funds before we retire.

Beyond demographics, the United States confronts a range of other challenges. Globalization is at the top of that list. Markets, technologies, and businesses in various countries and in various parts of the world are increasingly linked, and communication across continents and oceans is now instantaneous. This new reality was made clear by the recent decline in the Chinese stock market, which had immediate ripple effects on financial markets from Tokyo to London to New York.

Clearly, U.S. consumers have reaped many benefits from globalization. From clothing to computers, you and I can buy a range of foreign-made goods that are cheaper than ever. But

there's a catch. In many cases, lower prices have been accompanied by a loss of U.S. manufacturing jobs.

Globalization is also having an impact in areas like the environment and public health. The truth is that air and water pollution don't stop at the border. And with today's international air travel, infectious diseases can spread from one continent to another literally overnight. This is one reason that public health experts are so concerned these days about avian flu.

With the end of the Cold War, we face new security threats, including transnational terrorist networks and rogue nations armed with weapons of mass destruction. September 11 brought this reality home in a painful way. Stronger multinational partnerships will be essential to counter these diverse and diffuse threats.

Other opportunities and challenges come from technology. In the past 100 years, but especially the last 25 years, spectacular advances in technology have transformed everything from how we do business to how we communicate to how we treat and cure diseases. Our society has moved from the industrial age to the information age, where specialized knowledge and skills are the keys to success. Unfortunately, the United States—which gave the world Benjamin Franklin, Thomas Edison, and Bill Gates—isn't even in the top 20 developed nations today on high school math and science test scores.

In many respects, our quality of life has never been better. We're living longer, we're better educated, and we're more likely to own our own homes. But as many of you already know from your own families, we also face a range of quality-of-life concerns. These include poor public schools, gridlocked city streets, inadequate health care coverage, and the stresses of caring for aging parents and possibly our own children at the same time.

Our very prosperity is also placing greater demands on our physical infrastructure. Billions of dollars will be needed to modernize everything from highways and airports to water and sewage systems. The demands for such new investment will increasingly compete with other national priorities.

Our Worsening Finances

Perhaps the most urgent challenge is our nation's worsening financial condition and growing long-term fiscal imbalance. Largely due to the aging of the baby boomers and rising health care costs, America faces decades of red ink. The facts on this aren't in question. Given our worsening financial outlook, the government's recent spending sprees and deep tax cuts are nothing less than a body blow to overall fiscal responsibility.

Despite what some say, deficits do matter—especially if they're large and structural in nature. As a CPA and the federal official who signs off on the audit of the government's consolidated

financial statements, I'm here to tell you that our nation's financial condition is worse than advertised.

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, and even our future domestic tranquillity and national security.

The first is the federal budget deficit. Thanks to a combination of out-of-control federal spending and several major tax cuts, 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.

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 threats. I'm talking about things like unfunded Social Security and Medicare benefits. In the last six years, the estimated cost of these accumulating burdens has soared from about \$20 trillion to about \$50 trillion.

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 investors. And that brings me to America's third deficit: our balance-of-payments deficit. America is simply spending more than it's producing. In 2006, our trade deficit hit a record \$763 billion. Not surprisingly, the value of the dollar has sunk. As some of you may have learned firsthand, overseas trips and some imports are getting pricy.

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, the OPEC nations, 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.

Long-range simulations from my agency, the U.S. Government Accountability Office, are chilling. 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, national parks, federal law enforcement, and even our armed forces.

A Way Forward

By now, you're probably wondering how we can turn things around. 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.

But current 10-year budget projections fail to take into account the huge costs associated with the impending retirement of the baby boomers. Similarly, these projections ignore the huge revenue losses that will result if all recent tax cuts become permanent. And this is my key point: It's only when we take a long-term view that it becomes clear how serious a challenge we really face.

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 the politics don't work.

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.

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 system. 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, most federal spending and tax preferences are on autopilot and reflect 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 commitments. 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.

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.

GAO has been doing its best to bring attention to the problem. In 2005, we published an unprecedented report that asks more than 200 probing questions about mandatory and discretionary spending, federal regulations, tax policy, and agency operations. The report is called “21st Century Challenges: Reexamining the Base of the Federal Government,” and it’s available free on our Web site. Last November, GAO sent a letter to congressional leaders suggesting 36 areas for closer oversight. And last month, we issued our summary report on key questions related to Iraq oversight. We also issued our new list of government areas at high risk of waste, fraud, abuse, and mismanagement.

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 budget 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. At a minimum, the commission’s efforts would spur more informed debate going into the 2008 election cycle.

The commission could be created statutorily. Last year, Senator George Voinovich and Congressman Frank Wolf introduced legislation. More recently, several members, including Senators Pete Dominici and Diane Feinstein, and Senators Kent Conrad and Judd Gregg, have announced their own commission proposals.

Alternatively, such a commission could be independent of the political process. It could be sponsored by leading foundations and composed of preeminent players whose recommendations couldn’t be ignored. The recent efforts of Jim Baker and Lee Hamilton on the Iraq Study Group come to mind in this regard.

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 midterm election. From Iraq to immigration, from ethical lapses to 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 challenge.

This is why I've 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. The Wake-Up Tour has gotten a considerable amount of press coverage, including a *60 Minutes* piece that aired on March 4.

On several occasions, we've been joined by members of Congress, governors, and mayors. For example, former Senator John Glenn and current OMB Director Rob Portman spoke at the forum at Ohio State. At every stop, we've made it a point to lay out the facts in a professional, nonpartisan, and nonideological manner. We've also stressed the moral and ethical dimensions of the challenge, including the unfair intergenerational aspect of our current path.

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. They also want public officials who will lead change and are willing to partner with others 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 things, 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, individuals who can see new ways to solve old problems and who can help show others 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 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.

A Call to Public Service

Transforming government isn't something that will happen overnight. Elected, appointed, and career officials will need to work together closely for a sustained period of time—perhaps a

generation or longer. Public officials will need to reach across institutional lines and partner with other government agencies, businesses, professional organizations, and nonprofit groups. And politicians will need to focus more on what's right for our country rather than what's right for their party. It's going to take patience, persistence, perseverance, and even pain before we prevail in transforming government. But prevail we must.

But successful government transformation isn't possible without a first-rate federal workforce. I know many of you here this evening are students. As you weigh your career options, I hope you'll consider the example of Elmer Staats. In my view, every American should devote at least two years of his or her life to public service.

As someone who has divided his career between government and the private sector, I can tell you that my experience at federal agencies has been challenging, enlightening, and rewarding. Before coming to GAO in 1998, I was a senior executive in several private sector firms, including Arthur Andersen before its fall. I also served as a trustee of Social Security and Medicare, as an Assistant Secretary of Labor, and as head of the Pension Benefit Guaranty Corporation. My public sector experience has given me a chance to help many people, some of whom I've gotten to know, others whom I'll never have a chance to meet.

Opting for public service is an honorable choice. Public service is a chance to make people's lives better and their futures brighter. Public service is a calling where individuals and organizations can help build a better nation and a better world.

Public service can take several forms: military or civilian government service, faith-based or other charitable organizations, or in community and other public interest groups. Lots of jobs in various sectors, from nursing to teaching to social work, also provide wonderful opportunities to serve others.

One person clearly can make a difference in today's world. My favorite 20th century president, Theodore Roosevelt, is proof of that. TR, as he's often called, was someone with character, conscience, and conviction. In fact, TR is the only American to have won both the Congressional Medal of Honor and the Nobel Peace Prize.

TR firmly believed that it was every American's responsibility to be active in our civic life. Democracy is hard work but it's work worth doing. And that's really at the heart of my message tonight. How America looks in the future is largely up to us. It's you and I who are ultimately responsible for what does or does not happen in Washington.

Please don't misunderstand my message this morning. Like most Americans, I'm an optimist by nature, and things are far from hopeless. Yes, it's going to take some tough choices on a range of important issues. But anything is possible in America, and a few thoughtful reforms phased in over time can do a lot to put us on a prudent path. It's also essential that all of us understand the need to make some modest sacrifices today to help ensure a better tomorrow.

The real difficulty is convincing elected officials and the public that the time to act is now. If we wait until a crisis hits, we'll have few options, and they'll be far harsher and more disruptive.

Other countries have addressed similar challenges, including Australia and New Zealand. Like the United States, they have aging populations. Unlike the United States, these two countries have stepped up to the plate and dealt with some of their serious long-term challenges. 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 make difficult decisions that require short-term pain in the interest of long-term gain.

In the case of the United States, effective leadership—the kind that leads to meaningful and lasting change—has to be bipartisan and broad-based. Leadership can't just come from Capitol Hill or the White House. Leadership also needs to come from Main Street. It's time for the three most powerful words in our Constitution—"We the people"—to come alive. As I said earlier, the American people are going to have to become better informed and involved as we head toward the 2008 elections. And the next President, whoever he or she may be, and whichever party he or she represents, should be prepared to use the bully pulpit of the Oval Office to push needed reforms. If these things happen, we have a real chance to turn things around and to help ensure that we will be better off and better positioned for the future.

In closing, I've been studying the life of George Washington, particularly his two terms as President. What's often overlooked is that Washington was a big believer in fiscal discipline and stewardship. In his farewell address in 1796, Washington spoke to the issue of public debt. He urged the new nation to avoid "ungenerously throwing upon posterity the burden which we ourselves ought to bear." It's remarkable how some words are timeless.

Today, as in Washington's time, it's essential that we face up to our responsibilities and make tough choices. The continued well-being of America depends on our doing just that. I am confident that we can, we must, and we will ultimately rise to meet our many challenges. We just need to do so sooner rather than later. I promise to do my part. Today, all that I ask is that each of you does yours.

Finally, let me remind you that in this great land of opportunity anything is possible. In America, persons with a good education, a positive attitude, a strong work ethic, and solid moral and ethical values have unlimited potential. Your education at McPherson College will give you a strong start. The rest is up to you!

As TR said, "fighting for the right (cause) is the noblest sport the world affords." So pick your cause, and do your best to make a real and lasting difference.

I appreciate your attention this evening, and I'd be happy to take any questions you might have.

