
Presentation by
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Fiscal Facts and Keeping America Great

The John Hazen White Lecture
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Thank you, Brett Clifton, for that kind introduction.

I am honored to deliver this year's John Hazen White Lecture. As most of you know, Mr. White was a successful businessman with a keen interest in public affairs. By establishing this lecture in 1993, Mr. White sought to keep this campus and the broader community informed about the leading public policy issues of the day. I hope I live up to those expectations.

Today, I'm going to talk about a number of emerging trends and 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 and to keep America great.

But first, let's acknowledge that we live in a great nation. Possibly the greatest in the history of mankind. And yes, we are currently the world's only superpower. Furthermore, many more people want to immigrate to the United States than leave it. At the same time, we face a series of fiscal, health care, Iraq, immigration, education, energy, Social Security, and other sustainability challenges that threaten our 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 this afternoon probably have limited 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 your parents or the media.

Your world has been defined by more recent developments, such as the invention of the microcomputer, the spread of the AIDS virus, and the discovery of the human genome. 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. Despite increased immigration, the 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.

Most of today's retirees will live far longer and spend more years in retirement than their parents and grandparents. 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. I should point out while Social Security has a problem, our Medicare and health care challenges are many times worse.

At the same time, American companies are cutting back the retirement benefits they're offering to workers. To live well during our "golden years," all of us, even you, 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 also a major issue. 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 drop 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.

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—now doesn't even rank in the top 20 developed nations 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.

Let me put it this way: Our 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 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 rapidly 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, 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 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 lost 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 (GAO), are chilling. If we continue as we have, policymakers will eventually have to raise taxes 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. What's also at stake is the future flexibility of our government to address new challenges.

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 doesn'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 close 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 had been 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.

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.

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 become so expensive.

We need nothing less than a top-to-bottom review of federal programs, policies, and operations. 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 I recommend it to everyone here today. The report is available free on GAO’s Web site at www.gao.gov.

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 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. Some of you may have seen the *60 Minutes* piece that aired on March 4.

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.

Successful leaders also need to take a long-term view. We've had a tradition in this country of trying to leave things better off and better positioned for the future for those who will follow us. Earlier generations, like those who founded this university, understood it was important not just to live for the day but to lay the foundation for a better tomorrow. That's called stewardship. Unfortunately, the baby boomers are on track to become the first generation of Americans who leave things less well positioned for the future.

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.

At the same time, government transformation isn't possible without a first-rate federal workforce. I realize a degree from Brown University counts for a lot, and most of you have many career options. But whatever job you choose, I hope at some point you will consider giving at least a couple of years of your 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 Price Waterhouse and Arthur Andersen. 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. People like the students on this campus, retirees like your grandparents, and veterans who have fought for our country.

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.

As our 26th and youngest president, he was an optimist who firmly believed in the potential of government to improve the life of every citizen. As a trustbuster, TR took on some of the nation's more powerful and ethically challenged corporate interests. And he won. As an environmentalist, TR left us with a legacy of great national parks like Yosemite. As an internationalist, he led peace talks to end the Russo-Japanese War. 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 our fellow citizens 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 a few thoughtful reforms phased in over time can do a lot to put us on a prudent path. In my view, modest sacrifices today will almost certainly help to 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 with similar challenges have already acted. The two best examples are 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 better position ourselves for the future.

My hope is when you leave here today, you'll spread the word among your friends and family about the challenges we face. By facing the facts and making sound policy choices, I'm confident we can fulfill our stewardship responsibilities to your generation and to future generation of Americans.

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

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

