

Government Challenges in the 21st Century

Based on Remarks by
The Honorable David M. Walker
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Today, I'd like to speak to you, the members of the National Press Club, about several emerging challenges facing our country and the federal government in the 21st century. These issues deserve our attention because of their potential to shape our society and define America's role in the world. These issues also deserve our attention because of what's at stake—effective and responsive government.

My remarks are based primarily on work by GAO, virtually all of which can be found on our website at www.gao.gov.

GAO's Role and Mission

Before I begin, it's important to talk about what GAO does and does not do. I realize that our name confuses many people.

Despite our full name—the U.S. General Accounting Office—we do not keep the government's books and financial records. That is the responsibility of the chief financial officers at the various agencies along with the Treasury Department and the Office of Management and Budget. However, GAO does audit the consolidated financial statements of the federal government.

GAO is in the legislative branch, and we help Congress carry out its constitutional responsibilities. Our mission is to help maximize the performance and ensure the accountability of government for the benefit of the American people. To put it simply, GAO tries to make government work better for all Americans. We're in the accountability business.

Yes, part of GAO's job is to fight waste, fraud, abuse, and mismanagement in government. However, the Inspectors General are on the front lines in fighting these problems at their respective departments and agencies. At GAO, we focus more on long-range and cross-governmental issues, including ways to improve the economy, efficiency, and effectiveness of government.

GAO's audits, investigations, and policy analyses, along with various legal services, span the entire scope and reach of the federal government. This is a huge effort because the U.S. government is the largest, most diverse,

and most complex entity in the world. Believe me, it's a full time-job and there's no risk that our services will become obsolete.

Importantly, more than 90 percent of GAO's work is done at the request of Congress. As a result, we are very client focused.

We are also very results oriented and dedicated to leading by example. Last year, GAO generated more than \$23 billion in financial benefits. That's a \$61 return on every dollar that Congress and the taxpayers invested in our agency in fiscal year 2000.

GAO's non-financial accomplishments included strengthening practices for acquiring weapons systems, improving the quality of care at nursing homes, modernizing federal human capital practices, and enhancing computer security across government. In doing its work, GAO is committed to a set of strict professional standards and core values.

Finally, with a 15-year term and significant job security as Comptroller General, I am committed to addressing not just today's problems but also tomorrow's challenges before they become crises. That brings me to my next point.

Transitions and Trends in America

It really is a new ball game in America. As such, I want to talk about several important transitions and trends that will affect the playing field.

From a political perspective, two important transitions are now underway: a new Congress and a new administration. In Congress, the Republicans are in the majority but with narrower margins. There are many new committee chairs and ranking minority members. In the executive branch, the Bush Administration has come to town, but so far only a fraction of its key players are in place.

From a fiscal perspective, we are moving from a period of deficits to a period of continuing projected surpluses.

From an economic perspective, we are moving from the industrial age to the knowledge age. In the knowledge age, people will be the key to attaining and maintaining a competitive advantage.

From an historical and psychological perspective, we've entered a new millennium. The start of the 21st century creates a natural tendency to reflect on the past and contemplate the future. At the same time, certain key trends are now clear, and they have significant implications for the United States and other industrialized nations.

We're seeing increasing globalization of markets, information, and enterprises. There are no islands in today's wired, interconnected, and interdependent world.

We're seeing changing demographics, including aging societies, longer life spans, falling worker-to-retiree ratios, slower workforce growth, greater diversity, and growing skill gaps.

We're seeing changing security threats. The Cold War is over and the United States won. However, with the rise of rogue states and more open borders, we now confront a number of diverse and diffuse security threats. These threats range from various weapons of mass destruction to cyber attacks, from illegal drugs to infectious diseases.

We're seeing the rapid evolution of technology. Technology offers opportunities to increase productivity and decrease costs, but it also poses a threat to national security and personal privacy. Technology can also distract us from the key to maximizing performance and accountability-- people.

We're seeing rising concerns about our quality of life. From education to the environment, from work and family issues to urban sprawl, people are thinking more and more about their quality of life.

We're seeing rising health care costs. In the coming years, the resurgence of health care costs will put increasing pressure on governments, employers, and individuals. We have a huge imbalance between what people want, what they need, and what we can afford in this critically important area. Put differently, there is a huge gap between what has been promised and the resources that are likely to be available, especially in connection with Medicare.

We're seeing an increasing trend toward devolution. Transferring functions and activities closer to the people and from government to the private and not-for-profit sectors is leading to shared responsibilities and growing accountability challenges.

Emerging Challenges Facing Government

These transitions and trends set the stage for the many emerging challenges facing government in the years ahead. To illustrate that point, let's look at three of these issues: the long-term budgetary picture, the human capital crisis, and the U.S. Postal Service.

First, the budget situation. Although the Congressional Budget Office's most recent 10-year projection (i.e., January 2001) shows higher surpluses, its longer-term projections are worse, primarily due to known demographic trends and rising health care costs. Budget projections are necessary, but they are inherently uncertain, especially the further out you go. Demographic projections are much more reliable because they involve people who are alive today.

Since 1962, our budget picture has changed dramatically. In 1962, more than two-thirds of the federal budget was discretionary and half of the federal budget went for defense. In 2000, about one-third of the federal budget was discretionary, and only 16 percent of the budget went for defense. The reduction in defense spending during the intervening 38 years went primarily to health care, Social Security, and interest on the national debt. This wasn't a conscious trade-off; it's just what happened. Importantly, the costs for health care and Social Security are going only one way under our current system—and that's up. In addition, the pent-up demand for tax cuts and spending increases after years of fighting deficits makes it debatable how much interest on the federal debt will go down.

According to GAO's latest budget simulations, if policymakers were to save every penny of the Social Security surplus but spend the entire "on-budget" surplus, we would return to the days of deficits and debt within 20 years. Without significant fiscal policy changes, discretionary spending will have to be cut in half by 2030 and eliminated before 2040. Alternatives do exist, such as significantly raising taxes or further mortgaging the future, but neither are very attractive options.

Guess what's in discretionary spending? National defense, our judicial system, and education programs, to name a few.

If we want to avoid a fiscal train wreck down the line, we must be prudent about how we handle the current surplus and we must get on with entitlement reform.

The government also faces a long-term threat of a different kind: a growing human capital crisis. It's clear that the key competitive element in the 21st century will be people. People are the source of all knowledge, and in the knowledge age, having enough of the right people with the right skills will mean the difference between success and failure. Yes, business processes and technology are important, but people are essential.

Unfortunately, all too often, the government and many other employers have treated their workers as a cost to be cut rather than an asset to be valued. This must change.

The 1990s saw a poorly planned and numbers-driven campaign to downsize government. As a result, the federal workforce is smaller; however, it's also out of shape, suffers from skills imbalances, and faces a huge succession planning challenge.

The problem is so serious that GAO recently put "strategic human capital management" on its list of government areas at high risk for waste, fraud, abuse, and mismanagement. The problem is not federal employees, it's the policies, procedures, and legislative framework that guide federal human capital actions.

We must take a range of steps within the context of current law to address these challenges and to attract and retain a quality federal workforce. Over time, we must also move to build a consensus for more comprehensive civil service reform.

We can't afford not to have top quality people running the largest, most complex, and most important entity on earth—and the world's only remaining superpower—the U.S. government. The stakes are simply too high to do otherwise. Both government and private industry need to

review workforce policies and practices in light of the key trends I mentioned earlier.

Another major government challenge will be to transform the Postal Service to meet the demands of a more competitive climate. With more than \$65 billion in annual revenues, the U.S. Postal Service is the second largest employer in the United States. Although the Postal Service plays a vital role in mail delivery and helps to link our country together, it faces rising competition at home and abroad.

The Postal Service lost \$200 million last year and is projected to lose \$2 to \$3 billion this year, even with the recent postal rate increase. The basic statutory framework that governs the Postal Service has not changed since 1970, despite the fact that the world has changed significantly and will change even more in the future. These and other factors caused GAO to recently add the Postal Service's transformation effort to its high-risk list.

Simply raising postal rates is not the answer. The time has come to take a comprehensive look at the governance structure, management practices, labor policies, and statutory framework of the Postal Service. Dealing with these structural challenges will be tough but necessary.

The Postal Service problem is too big to ignore. It also underscores the need to revisit a range of federal programs and policies in light of the key trends I discussed earlier.

Government's Continuing Challenges

The government also faces continuing challenges in how it does business. Shortcomings in basic practices, policies, and procedures stand in the way of effective and accountable government. I'd like to talk about three of these continuing challenges: federal financial management, federal acquisition and sourcing strategies, and business process transformation at the Defense Department.

When it comes to financial management, the federal government has lagged behind the curve for years. The federal government began to publish annual financial statements only in the last decade, and the

consolidated financial statements have been subject to audit for only four years.

The government has made progress in this area, but much remains to be done. The fact is that no private sector enterprise could survive for long with the federal government's financial management systems.

Although 18 of 24 major federal agencies and departments received "clean opinions" on their financial statements for fiscal year 2000, only six of the 24 had clean opinions, no material control weaknesses, and no major compliance problems. Also, many of the clean opinions were obtained only through "heroic" efforts, which involved committing significant human and financial resources to reconstruct the statements at the end of the fiscal year.

This is no way to run any enterprise. It must change.

Government leaders have a responsibility to deliver and the public has a right to expect a government with the systems and controls in place to safeguard taxpayer dollars and guarantee accountability. Other nations much smaller than ours have accomplished this. It's time that we did so as well.

Federal reporting standards must put more emphasis on performance information, long-range commitments and contingencies, and the government's greatest asset—its employees.

A second continuing challenge is federal acquisition and sourcing strategy. Although the federal workforce is smaller today, the "shadow workforce" has grown dramatically during the last 10 years. The shadow workforce consists of contractor personnel who perform services for the federal government. At the same time, more and more functions are being devolved to lower levels of government and to non-governmental sources.

This situation raises several policy, equity, and accountability issues. We need to fundamentally review and reassess a range of federal practices, policies, and procedures when it comes to federal acquisition and sourcing strategies. In doing so, we must balance the interests of various key

stakeholders, such as taxpayers, contractors, the government, and federal workers.

I hope that the recently created Commercial Activities Panel, which I chair, will be able to make some meaningful progress in this important area.

A third continuing challenge is business process transformation at the Defense Department. We have the best military forces on earth. In recent years, we have proved that we are number one on the battlefield. The Defense Department earns an “A” on effectiveness.

At the same time, DOD deserves a “D+” at best on economy, efficiency, and related accountability. Six of the 21 government programs and functions on GAO’s high-risk list are specific to DOD. In addition, the two governmentwide high-risk areas—strategic human capital management and information security—also apply to DOD.

As a result of these problems, DOD wastes billions of dollars that could be better spent on readiness, improving the quality of life for our troops, and closing the gap between wants and available funding when it comes to major weapons systems.

DOD must change the way it does business. This will be tough given the culture at DOD.

Where Do We Go From Here?

As I said before, the 21st century is a new ball game. Much has changed in the last 20 years, and the world is likely to change even more in the next 20 years.

Now is the time for us to ask two key questions: First, what is the proper role for the federal government in the 21st century? Second, how should government do business in the 21st century?

The first question raises several public policy issues that must be answered by our elected officials. It requires reexamining a range of government programs, tools, and policies in light of past needs and expected changes. GAO’s role will be to help get the facts, analyze the

situation, and provide options so that policymakers can make timely and informed judgments.

When it comes to the second question, GAO will continue to aggressively identify problems and make recommendations on business practices. GAO will also continue to provide tools and information to help other agencies help themselves. In doing so, GAO will remain committed to its professional standards and its core values of accountability, integrity, and reliability.

GAO's primary mission is to serve Congress, but GAO also serves the American people by making government work better. To keep taxpayers informed of its work, GAO relies heavily on the press to report the agency's findings, conclusions, and recommendations. Representative government depends on an informed electorate. I appreciate the confidence that the press has in the facts we lay out in GAO reports. I also appreciate the important role that you, the members of the press, can play in keeping our citizens aware of the choices and challenges that will face our country in the years ahead.

I firmly believe that the goal of effective and responsive government is within our grasp. I am looking forward to working with you to help government work better for all Americans.

BIOGRAPHY OF DAVID M. WALKER

David M. Walker became the seventh Comptroller General of the United States and began his 15-year term when he took his oath of office on November 9, 1998. As Comptroller General, Mr. Walker is the nation's chief accountability officer and the head of the General Accounting Office (GAO), a legislative branch agency founded in 1921. GAO helps Congress maximize the performance and ensure the accountability of the federal government for the benefit of the American people. Immediately prior to his appointment as Comptroller General, Mr. Walker was a partner and global managing director of Arthur Andersen LLP's human capital services practice and a member of the board of Arthur Andersen Financial Advisors, a registered investment advisor. He also served as a Public Trustee for Social Security and Medicare from 1990 to 1995, while he was a partner with Arthur Andersen. Before joining Arthur Andersen, Mr. Walker was Assistant Secretary of Labor for Pension and Welfare Benefit Programs and Acting Executive Director for the Pension Benefit Guaranty Corporation. His earlier technical, professional, and business experience was gained with Price Waterhouse, Coopers & Lybrand, and with Source Services Corporation. Mr. Walker is a certified public accountant. He has a B.S. degree in accounting from Jacksonville University and a Senior Management in Government Certificate in Public Policy from the John F. Kennedy School of Government at Harvard University. He is married to the former Mary Etheredge, and they have two adult children—a daughter, Carol, and a son, Andy.

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