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

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# A Call for Stewardship

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Good afternoon ladies and gentleman. Thank you for coming today. I know some of you were in this same room back in 2003 when I gave a speech entitled "Truth and Transparency." In that speech, I urged the federal government to provide more complete and reliable information on where our nation stands financially and where it was headed fiscally. Those who were here will recall that during my speech, I expressed particular concern about the cost of the then pending proposal to add a Medicare prescription drug benefit. A little over four years have passed since I gave that speech, and I felt the time was right to provide an update on the state of America's finances. Where do we stand today? Are we on the right course? If not, what do we need to do to turn things around? I'll address these questions and also speak about two new documents being issued today: the Treasury Department's consolidated financial report for the U.S. government, including GAO's related audit report, and GAO's new report entitled "A Call For Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21<sup>st</sup> Century Challenges."

I'll start with where we stand today. This morning, the Treasury Department released the 2007 Financial Report of the United States Government. Candidly, if the federal government were a private corporation and the same report came out this morning, our stock would be dropping and there would be talk about whether the company's management and directors needed a major shake-up.

Why do I say this? Because if you look at today's report, you'll see that for the 11<sup>th</sup> straight year GAO was unable to express an opinion on the consolidated financial statements of the U.S. Government, primarily due to financial management problems within the Department of Defense. GAO also noted a number of very serious internal control weaknesses.

At the same time, there is some good news in connection with this year's audit. Today's annual report includes the first GAO opinion on a statement within the federal government's consolidated financial statements. Specifically, GAO expressed an unqualified opinion on the Statement of Social Insurance. This statement includes the largest numbers in the federal government's financial statements. To put things in perspective, we're talking numbers in the tens of trillions of dollars in current dollar terms. One of the reasons we could issue an unqualified opinion is because the Department of Defense has nothing to do with the Statement of Social Insurance!

When it comes to America's financial situation, are we on the right course? The answer is "yes" and "no." It just depends on your time horizon.

From a short-term perspective, it's true that our federal deficits have declined for three straight years and declining deficits are better than rising deficits. However, we are still running large deficits on an operating basis. What do I mean by an operating deficit? I mean the results of the federal government's operations excluding the Social Security surplus. After all, the federal government spends the entire Social Security surplus on various government operating expenses and replaces the cash with government bonds held in so-called government "trust funds." Given

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their structure, in my view, they really should be called “trust the government funds.” For example, in fiscal 2007, the federal government’s cash based operating deficit was about \$344 billion, much higher than the widely publicized unified deficit of \$163 billion. The accrual based net operating deficit was \$276 billion. Of these amounts, about \$120 billion related to Iraq and global war on terrorism expenditures.

Candidly, our current deficit and debt levels are not unduly troubling as a percentage of our national economy. However, these deficit levels and related debt burdens are set to escalate dramatically in the near future due to the retirement of the “baby boomers” and rising health care costs. The fact is, absent meaningful reforms, America faces escalating deficit levels and debt burdens that could swamp our ship of state!

This brings me to the longer-range picture. Believe it or not, the federal government’s total liabilities and unfunded commitments for future benefits payments promised under the current Social Security and Medicare programs are now estimated at \$53 trillion, in current dollar terms, up from about \$20 trillion in 2000. This translates into a defacto mortgage of about \$455,000 for every American household and there’s no house to back this mortgage! In other words, our government has made a whole lot of promises that, in the long run, it cannot possibly keep without huge tax increases.

The Medicare program alone represents about \$34 trillion of our current \$53 trillion fiscal gap. If there is one thing in particular that could bankrupt America, it’s runaway health care costs. And don’t forget, the first “baby boomers” will begin to draw their early retirement benefits under Social Security in a couple of weeks! And, just three years later, they will be eligible for Medicare. When “baby boomers” begin to retire in big numbers, it will bring a tsunami of spending that, unlike most tsunamis, will never recede.

The prescription drug benefit alone represents about \$8 trillion of Medicare’s \$34 trillion gap. Incredibly, this number was not disclosed or discussed until after the Congress had voted on the bill and the President had signed it into law. Generations of Americans will be paying the price—with compound interest—for this new entitlement benefit. In many ways, the 2003 Medicare prescription drug episode arguably represents government “truth” and “transparency” at its worst. Unfortunately, based on adding the prescription drug benefit and other spending and tax actions, the federal government seems to be ignoring the first rule of holes in connection with its fiscal affairs. Namely, when you’re in a hole, stop digging!

If trillions of dollars aren’t big enough to get your attention, believe it or not, in fiscal 2007 over 62 percent of the federal budget was on “auto-pilot” and this percentage is on the rise! Shockingly, the major functions expressly envisioned by our Founding Fathers as a proper role for the federal government—things like national defense, homeland security, foreign policy, the treasury function, the federal judiciary, the Congress and the Executive Office of the President—are in the remaining 38 percent of the federal budget! And this portion of the budget is set to get squeezed.

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Unfortunately, many Americans are in denial about the seriousness of our situation. Relatively low interest rates and modest inflation rates are partly to blame for this false sense of security. The truth is, too many American families are following the poor financial practices employed by the federal government. They're spending more money than they make, taking on more debt and incurring compounding interest costs. Both America and many Americans have become addicted to debt both in good times and bad.

One important obstacle to public enlightenment is that key government financial reports are very thick. I'm a CPA and the head of GAO, and I can tell you it's a struggle to get through some of this material. I'm sorry to say the consolidated financial report of the U.S. government, which the Treasury Department released earlier today, falls into this category. As a result, it will not be read by many.

Given that fact, GAO has been working with the Treasury Department and the Office of Management and Budget (OMB) to produce the first ever Summary Annual Report for the federal government. This document will be much more concise and user friendly than the voluminous annual report Treasury issued today. Hopefully, it will be both useful and used.

The first Summary Annual Report is scheduled to be issued in mid January 2008. Keep an eye out for this report. It will be version 1.0 and enhancements can be expected in future years.

I'm hopeful policymakers, the press, and the public will spend a few minutes to read the newly formatted document. I'm confident that if they do, they'll have a much better grasp of the growing fiscal challenge facing our nation. Special recognition and thanks goes to OMB and the Treasury Department, especially Under Secretary of the Treasury Bob Steele who spearheaded The Treasury Department's efforts on this project. Thank you Bob.

The Summary Annual Report is a positive step to help us understand our fiscal challenge, but far more dramatic action is needed to help us solve the problem. GAO is working with members of Congress from both parties as well as OMB, CBO, and others to draft a proposed Transparency and Accountability Act. Among other things, the proposal GAO is working on will require greater transparency on the longer-term cost of major legislation before it is enacted into law. The President would have to include at least a 10-year projection, along with an overall statement of fiscal philosophy, in his or her annual budget submission. The draft bill would also require the U.S. government to periodically issue a comprehensive Fiscal Sustainability Report, similar to the ones now issued by New Zealand, the United Kingdom, and other countries. Notably, this year's annual report on the federal government's consolidated financial statements includes a long-term outlook by the Administration. Their analysis serves to reference that the U.S. Government is on an imprudent and unsustainable long range fiscal path.

But we must do much more. After more than nine years in my position as Comptroller General of the United States and head of the GAO, I have become increasingly frustrated by the wide-spread myopia, tunnel vision, and self-centeredness in Washington. President Reagan had it right when

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he said that “Washington is an island surrounded by a sea of reality.” This gap needs to be closed through an increased public education and civic engagement process. Only through such efforts can the three most powerful words in the Constitution, “We the People,” come alive.

Our current state of public debate is not helping in this regard. Just turn on the TV or the radio and you have your choice of shows often billed as public affairs programming. You’ve seen these programs, where political pundits from the left and the right express their personal views that sometimes are not supported by facts or hard evidence. Many of these shows are essentially “fact free zones.” Their focus on ideological debates and partisan attacks are designed to entertain rather than inform the public. I realize that in America, everyone is entitled to his or her own opinion. However, people are not entitled to their own facts!

To counter political spin and help educate the public about the real state of America’s finances, I joined with the Concord Coalition, the Brookings Institution, the Heritage Foundation and others to embark on the “Fiscal Wake-up Tour” in September 2005. So far, we’ve gone to over 30 cities in 25 states. We have also spoken to numerous business and civic groups, editorial boards and local media outlets in these cities. Many more stops are planned in 2008 with an emphasis on critical swing states for the Presidential election.

Media reaction to “The Wake-Up Tour” has been overwhelmingly positive. A segment on the CBS news program “60 Minutes” was shown twice earlier this year and was nominated for an Emmy. I’ve conducted numerous other interviews, including on such diverse programs as NPR’s “Diane Rehm Show” and Comedy Central’s “The Colbert Report.” There have been numerous op-eds, editorials, and articles in newspapers and periodicals across the country. I appreciate the important role the press has played and continues to play in getting the truth out, but more needs to be done.

Importantly, a commercial documentary based on my four national deficits message, namely our budget, savings, balance of payments and leadership deficits, is nearing completion. The film features Bob Bixby of Concord, myself, and others. The tentative title is “I.O.U.S.A.,” and the documentary is set for general release next spring — in time for the 2008 general election campaign. I.O.U.S.A. was one of 16 out of over 900 films accepted for the 2008 Sundance Film Festival. Who knows, maybe the documentary will be nominated for an Oscar? I don’t know about Bob Bixby, but personally, I’m not planning to quit my day job for a Hollywood career!

What have we learned on the Tour? First, the American people have little trust or confidence in the federal government’s ability to address serious issues in a timely and constructive manner. Second, most Americans don’t have a high opinion of the executive or the legislative branch, or of either major political party. Third, they are starved for two things, truth and leadership. It’s time they got more of both.

On a more positive note, the American people are smarter than many elected officials and other individuals give them credit for. We’ve seen that once citizens are given the facts, most of them

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get it. In addition, most are willing to make some sacrifices for the future of their country and their families.

Knowledgeable Americans understand and acknowledge that they cannot run their households and businesses the way the federal government operates. They realize that tough choices will be required to put our nation on a more prudent and sustainable path. They also understand that, due to the power of compounding, it is prudent to make these choices sooner rather than later. As Albert Einstein is reported to have said, "The most powerful force on earth is not nuclear energy, it is the power of compounding!"

Very importantly, most Americans, including me, care about their children and grandchildren. We don't want to leave our descendants an indirect burden that could exceed any direct bequest we may be able to give them.

So where do we go from here? First, we need to re-impose tough budget controls, tougher than the ones that expired in 2002.

It's also urgent that we engage in comprehensive Social Security reform, as well as round one of comprehensive health care and tax reform. This may require a capable, credible, and bi-partisan commission or task force like the SAFE Commission proposed by Congressmen Cooper and Wolf, or the task force proposed by Senators Conrad and Gregg. Such an entity could help set the table for action while providing needed political cover for elected officials to act. We can't afford to wait until a crisis is at hand. At that point, our options will be more limited and far worse. In my view, it's in everyone's best interests to establish such a commission or task force as soon as possible, because time is working against us.

There is little question that it will take committed, courageous, capable, inspired, and sustained leadership to help us see the way forward, reach consensus on meaningful reforms, and discharge our fiduciary and stewardship responsibilities. This is why I believe that the next President of the United States must make fiscal responsibility and inter-generational equity one of his or her top three priorities. If that is the case and the next President is willing to work on a constructive and bi-partisan basis to achieve needed reforms, we can turn things around. If not, I think it's only a matter of time before we do face a major crisis.

I've focused so far on our government's growing fiscal imbalance, but our nation's sustainability challenges go beyond that. For example, it's pretty clear that much of the federal government isn't well aligned with the realities of the 21<sup>st</sup> century. Too few agencies are well positioned to meet new challenges or capitalize on emerging opportunities.

The truth is, much of government today is on autopilot and reflects social conditions and spending priorities that date back to the 1950s and 1960s. The Cold War is over, our population is aging, the dollar is no longer the only major reserve currency, and globalization is affecting everything from international trade to public health.

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Unfortunately, once federal programs or agencies are created, the tendency is to fund them in perpetuity. Washington rarely seems to question the wisdom of its existing commitments. Instead, it simply adds new programs and initiatives on top of the old ones. Again, President Reagan had it right when he said, “The closest thing to eternal life on this earth is a federal program.” This continual layering is a key reason our government has grown so large, so expensive, so inefficient, and in some cases, so ineffective.

As Clay Johnson and I know first hand, the federal government wastes huge sums of money each year, largely through not being “results oriented,” and through failing to properly target its actions. For example, every year, the U.S. government spends nearly \$3 trillion, foregoes tax revenues of over \$800 billion as a result of various tax preferences, and issues thousands of pages of regulations. Unfortunately, our government does all this without in many cases knowing which federal activities are making a real and meaningful outcome-based difference and which are not! On this basis alone, I’d venture that “waste” across the federal government could involve hundreds of billions of dollars each year.

From education to infrastructure, policymakers face competing demands in a range of vital areas. The question is how best to target finite resources and get the greatest value for money spent, whether it’s through direct spending, government guarantees or tax preferences. In my view, it’s critically important that the United States adopt a set of key national indicators to inform strategic planning; enhance government performance and accountability reporting; and facilitate a much needed and long overdue re-examination, re-prioritization, and re-engineering of the base of the federal government.

Gross domestic product, unemployment figures, violent crime statistics, infant mortality rates, math and science proficiency, and air quality indexes are all examples of commonly used indicators. A key national indicator system pulls together these various measures to tell a more complete story on how a country is doing and how we compare to others.

It matters how a nation keeps score. Indicator systems use fact-based information. And with more comprehensive and fact-based information, policymakers are more likely to ask good questions. They are also more likely to propose sound solutions and make wise decisions on spending, legislation, and oversight matters. Given these outcomes, public confidence in government should increase. After all, it can’t get much lower!

One possible way to develop a set of key national indicators is through a public/private partnership. This approach is being pursued by the non-for-profit group State of the USA and other organizations. Their efforts deserve more attention and support.

The reality is in addition to our overall fiscal challenge, the U.S. faces several other key sustainability challenges. They include things like our health care system, education, energy, environmental protection, immigration, Iraq and critical infrastructure policies - just to name a few.

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How can Congress and the President begin to sort out all these challenges and take steps now before the challenges of today become the crises of tomorrow? At GAO, we are trying to make sure the nation's leaders have the tools to meet this challenge. As I mentioned earlier today, GAO is issuing a new report that lays out a possible path for change. The report is entitled, "A Call for Stewardship: Enhancing the Federal Government's Ability to Address Key Fiscal and Other 21<sup>st</sup> Century Challenges."

This report provides 13 potential tools for Congress and the Administration to use to begin to confront our long-term fiscal and other challenges. This report is our latest addition to a portfolio of GAO products designed to address major 21<sup>st</sup> century challenges facing the nation.

As our latest report shows, the United States is not alone in facing a range of major challenges. In fact, representatives from GAO and about 150 other countries' Supreme Audit Institutions (SAIs) gathered in Mexico City last month to address two issues of interest around the globe.

The first issue relates to the need to take steps to ensure sustainable debt levels for nations in the future. The second issue relates to the need to develop a set of key national indicators to help improve government performance, ensure accountability, and enhance citizen engagement. Do these topics sound familiar? In the interest of full and fair disclosure, GAO did have some input on their selection!

Given these themes and the subject of my talk today, I ask that you consider the following potential future. Imagine a day in the future when government leaders are focused on their fiduciary responsibility to generate positive results for the people based on a set of key and results-based indicators. A day when government leaders provide timely and reliable performance information to their citizens in order to assess a nation's position, progress, and standing relative to other nations.

Imagine a day when government leaders understand and exercise their stewardship responsibility with regard to fiscal, environmental, and other key issues of national and global concern. A day when government leaders don't just focus on today but also take steps to create a better tomorrow.

When that day comes, we will have made a real difference—not just for our nations, and our fellow citizens, but for all mankind.

As the head of one of the leading supreme audit institutions in the world, the GAO, I can assure you that GAO will do its part to help address these and other key stewardship issues. All that I ask is that elected officials, political appointees, career civil servants, the press, and other caring citizens do their part as well. If all of us do our part, and if we start making tough choices sooner rather than later, we can keep America great, ensure that our future is better than the past, and ensure that our great nation is the first republic to stand the test of time. To me, that is a cause worth fighting for.

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In closing, as my favorite modern day President, Theodore Roosevelt said, “fighting for the right (cause) is the noblest sport the world affords.” Please join the fight to keep America great. Your children, your grandchildren, and generations yet unborn, will be glad that you did.

Thank you for your time and attention.

