

21st Century ISSUES

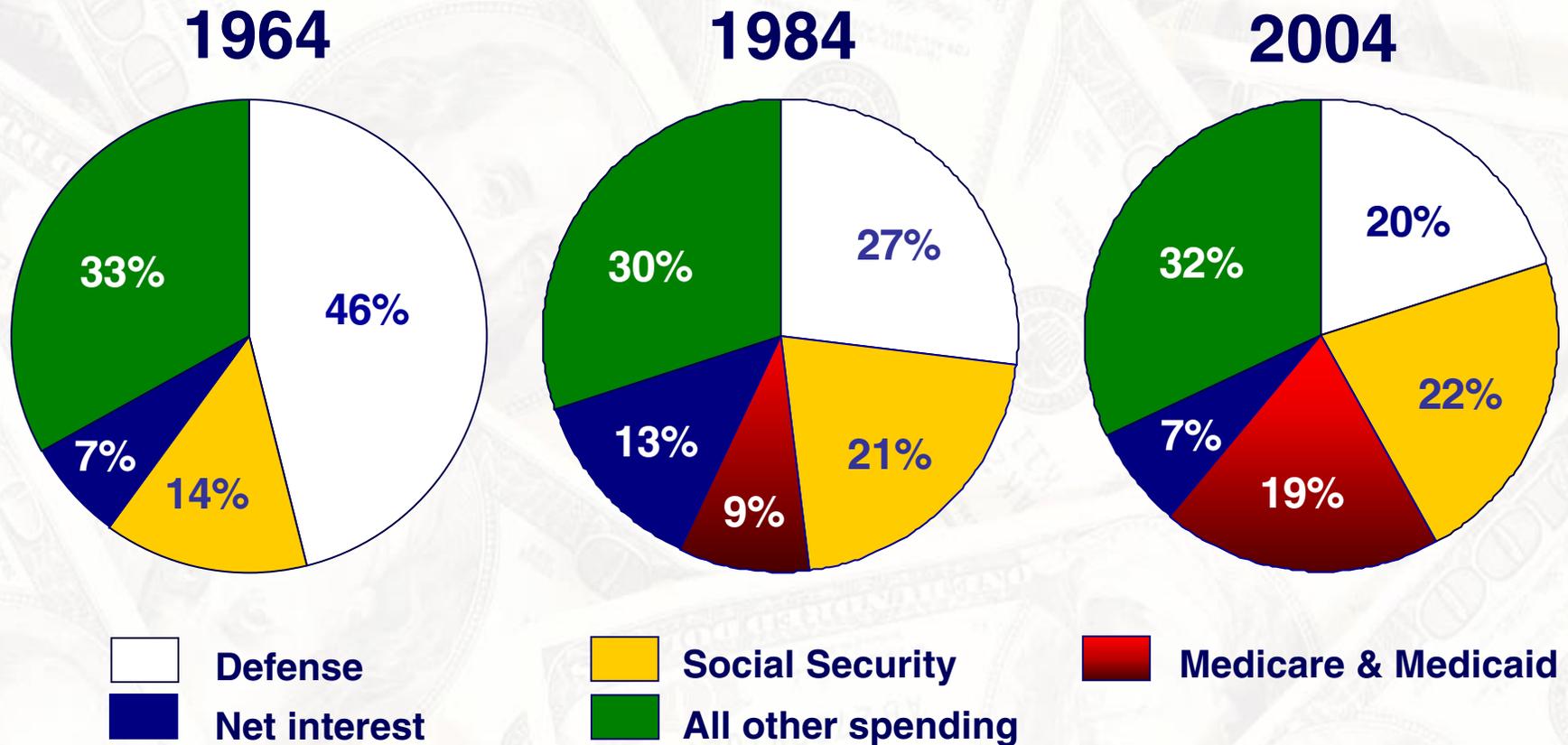
Challenges and Opportunities

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NASPAA Annual Conference
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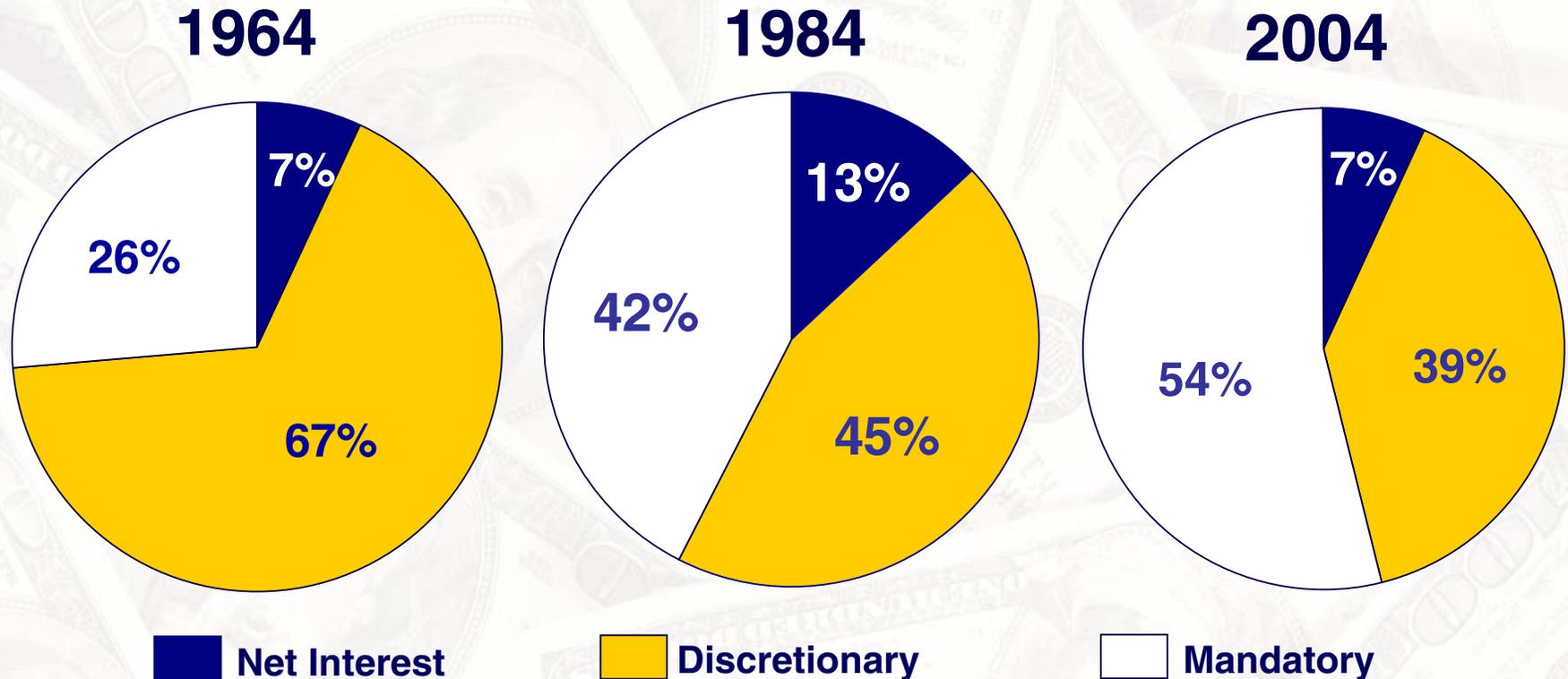


Composition of Federal Spending



Source: Office of Management and Budget.

Federal Spending for Mandatory and Discretionary Programs



Source: Office of Management and Budget.

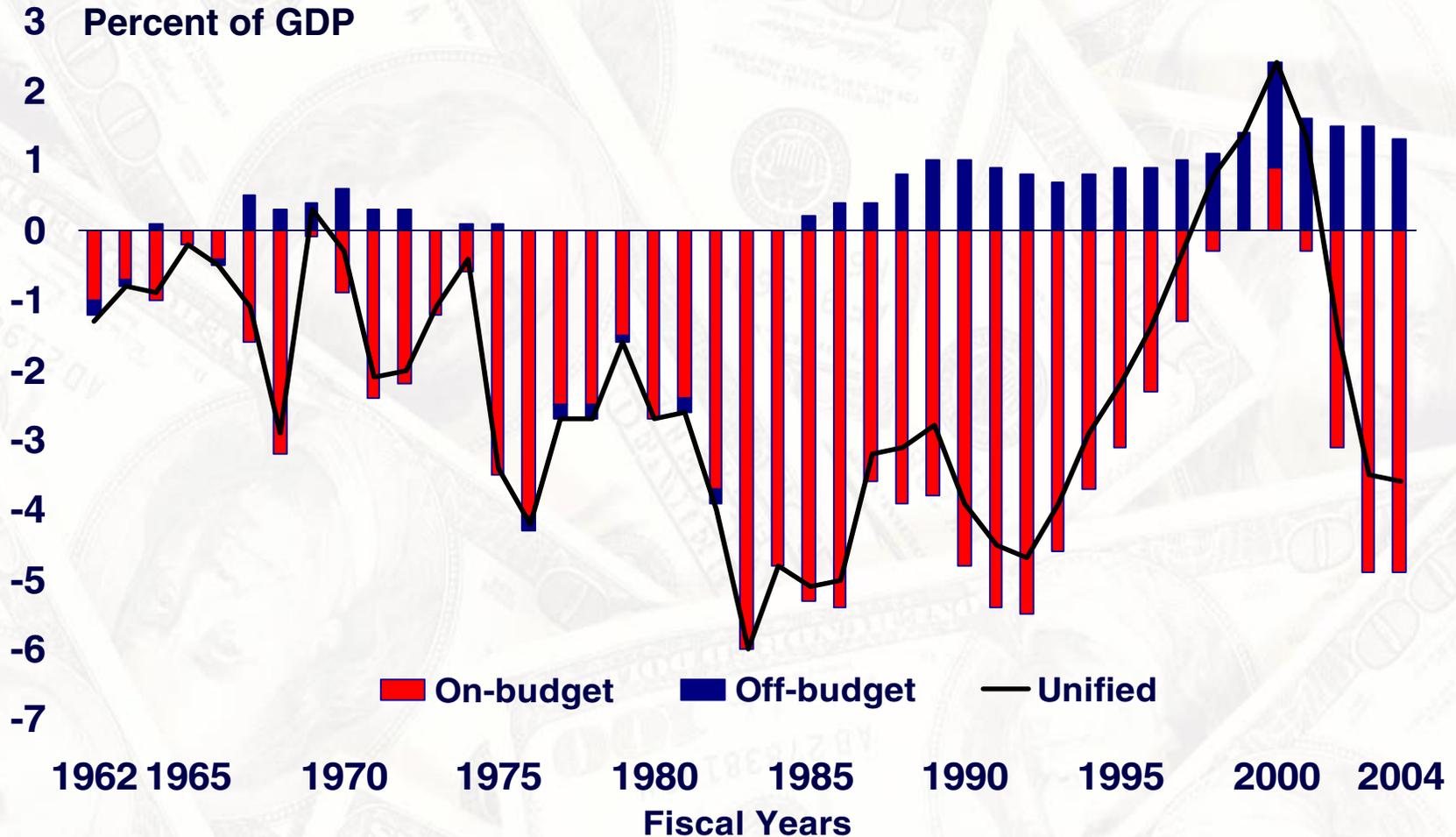
Fiscal Year 2004 Deficit Numbers

	\$ Billion	% of GDP
On-Budget Deficit	(567)	(4.9)
Off-Budget Surplus	155*	1.3
Unified Deficit	(412)	(3.6)

*Includes the \$151 billion Social Security surplus and a \$4 billion surplus for the Postal Service
March 2005

Surplus or Deficit as a Share of GDP

Fiscal Years 1962-2004



Source: Office of Management and Budget and Congressional Budget Office.

Estimated Fiscal Exposures

(in \$ trillions)

	2000	2002	2004
• Explicit liabilities	\$6.9	\$7.8	\$9.1
<ul style="list-style-type: none"> • Publicly held debt • Military & civilian pensions & retiree health • Other 			
• Commitments & Contingencies	0.5	0.8	0.9
<ul style="list-style-type: none"> • E.g., PBGC, undelivered orders 			
• Implicit exposures	13.0	17.8	33.3
<ul style="list-style-type: none"> • Future Social Security benefits 	3.8	4.6	5.2
<ul style="list-style-type: none"> • Future Medicare Part A benefits 	2.7	5.1	8.5
<ul style="list-style-type: none"> • Medicare Part B benefits 	6.5	8.1	11.4
<ul style="list-style-type: none"> • Medicare Part D benefits 	--	--	8.1
Total	\$20.4	\$26.4	\$43.3

Sources: Consolidated Financial Statements.

Note: Estimates for Social Security and Medicare are PV as of January 1 of each year as reported in the Consolidated Financial Statements and all other data are as of September 30. The 2005 Trustees Reports issued in March of this year show that the Social Security and Medicare exposures have increased as follows: Social Security increased to \$5.7 trillion, Medicare Part A increased to \$8.8 trillion, Medicare Part B increased to \$12.4 trillion and Part D increased to \$8.7 trillion. Totals may not add due to rounding.

How Big is Our Growing Fiscal Burden?

Our total fiscal burden can be translated and compared as follows:

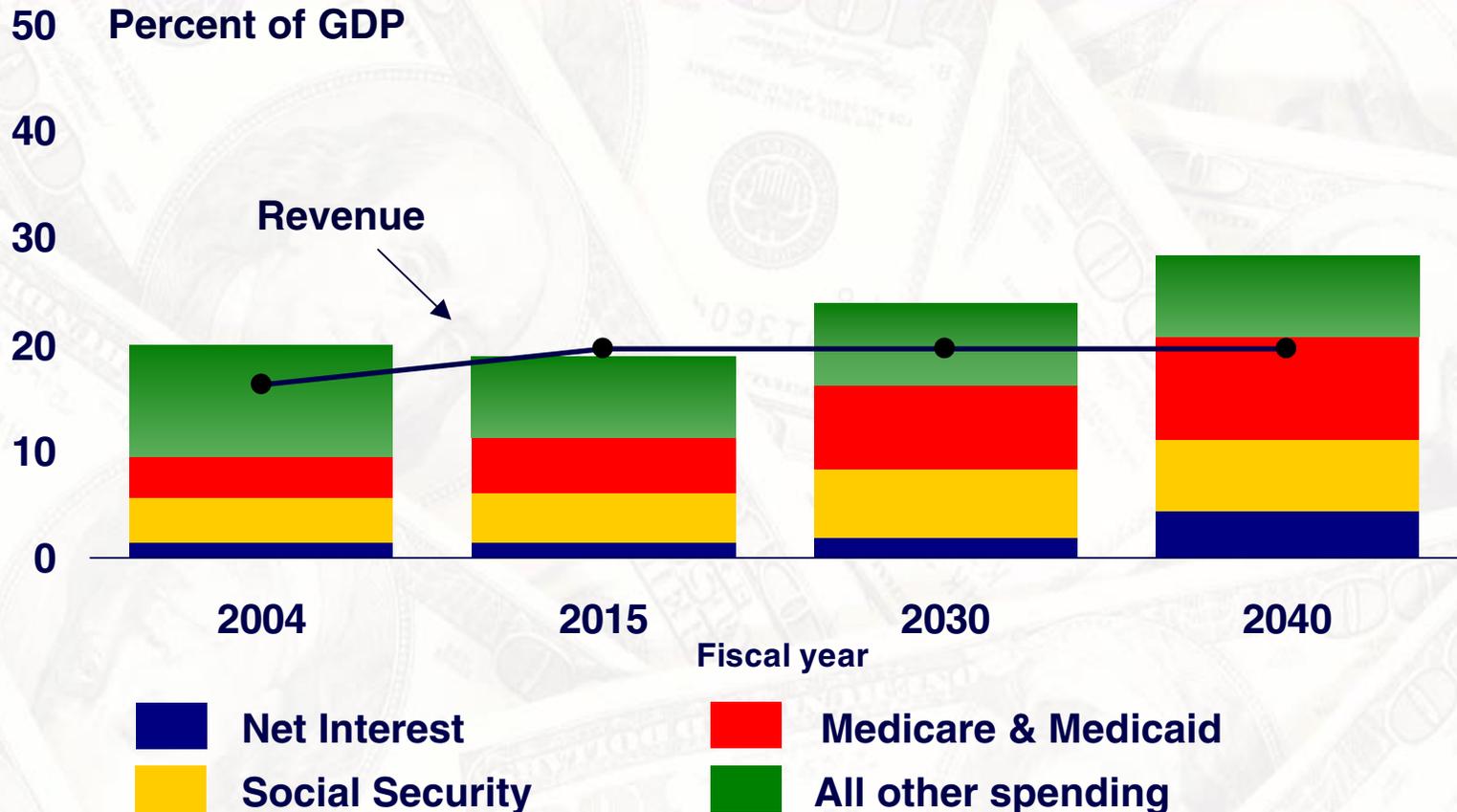
Total fiscal exposures	\$43.3 trillion
Total household net worth	\$48.5 trillion
Burden/Net worth ratio	89 percent
Burden	
Per person	\$147,000
Per full-time worker	\$350,000
Per household	\$383,000
Income	
Median household income	\$44,389
Disposable personal income per capita	\$29,475

Note: Net worth and income data are calendar year 2004 levels.

Sources: Federal Reserve Board for household net worth; Census Bureau for median household income; and the Bureau of Economic Analysis for disposable personal income per capita.

Composition of Spending as a Share of GDP

Under Baseline Extended

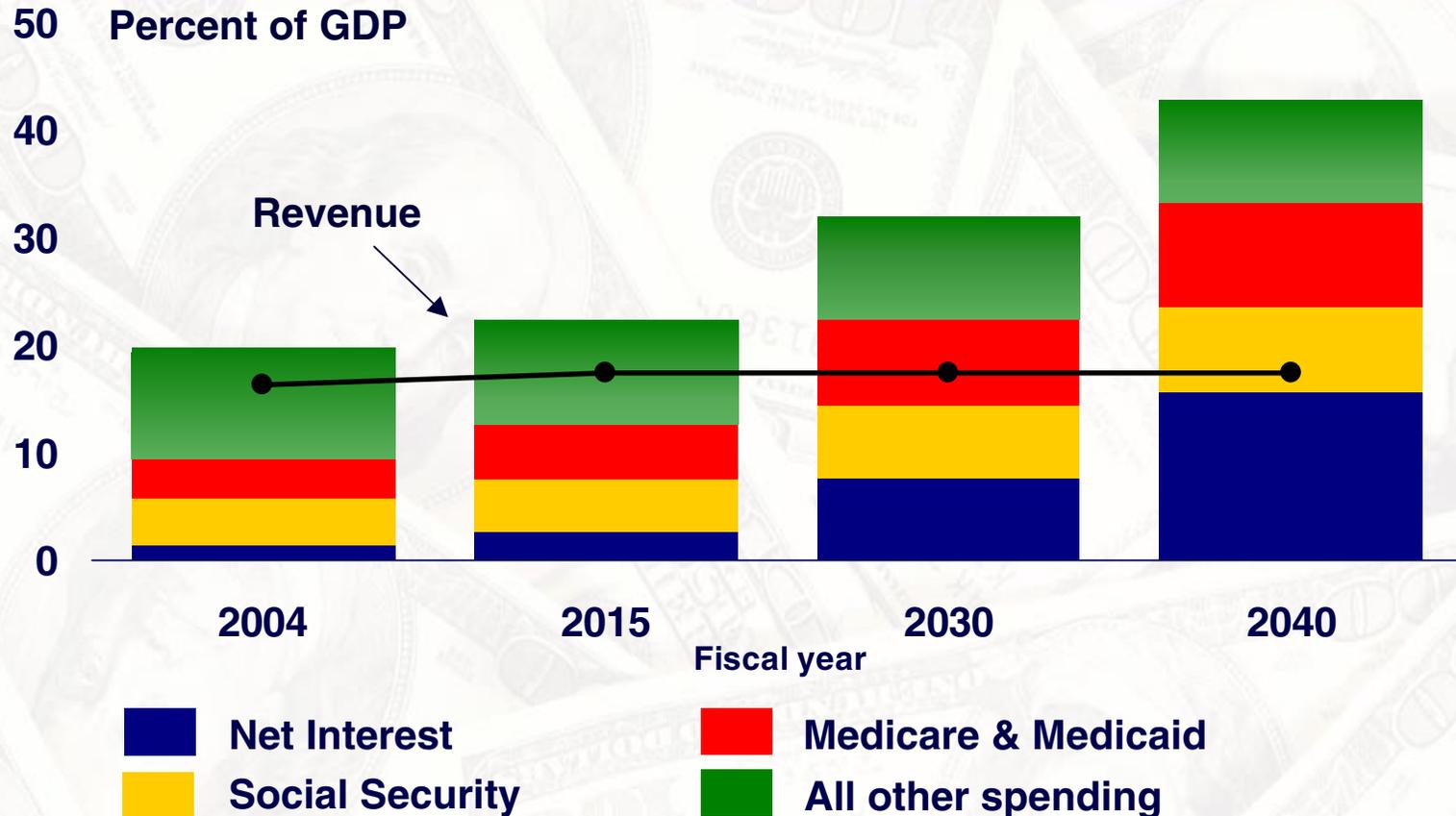


Notes: In addition to the expiration of tax cuts, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Composition of Spending as a Share of GDP

Assuming Discretionary Spending Grows with GDP after 2005
and All Expiring Tax Provisions are Extended



Notes: Although expiring tax provisions are extended, revenue as a share of GDP increases through 2015 due to (1) real bracket creep, (2) more taxpayers becoming subject to the AMT, and (3) increased revenue from tax-deferred retirement accounts. After 2015, revenue as a share of GDP is held constant.

Source: GAO's March 2005 analysis.

Current Fiscal Policy Is Unsustainable

- **The “Status Quo” is Not an Option**

- We face large and growing structural deficits largely due to known demographic trends and rising health care costs.
- GAO’s simulations show that balancing the budget in 2040 could require actions as large as
 - Cutting total federal spending by 60 percent or
 - Raising federal taxes to 2.5 times today's level

- **Faster Economic Growth Can Help, but It Cannot Solve the Problem**

- Closing the current long-term fiscal gap based on reasonable assumptions would require real average annual economic growth in the double digit range every year for the next 75 years.
- During the 1990s, the economy grew at an average 3.2 percent per year.
- As a result, we cannot simply grow our way out of this problem. Tough choices will be required.

- **The Sooner We Get Started, the Better**

- Less change would be needed, and there would be more time to make adjustments.
- The miracle of compounding would work with us rather than against us.
- Our demographic changes will serve to make reform more difficult over time.

FY2004 GAO Audit Report – Emphasis of a Matter

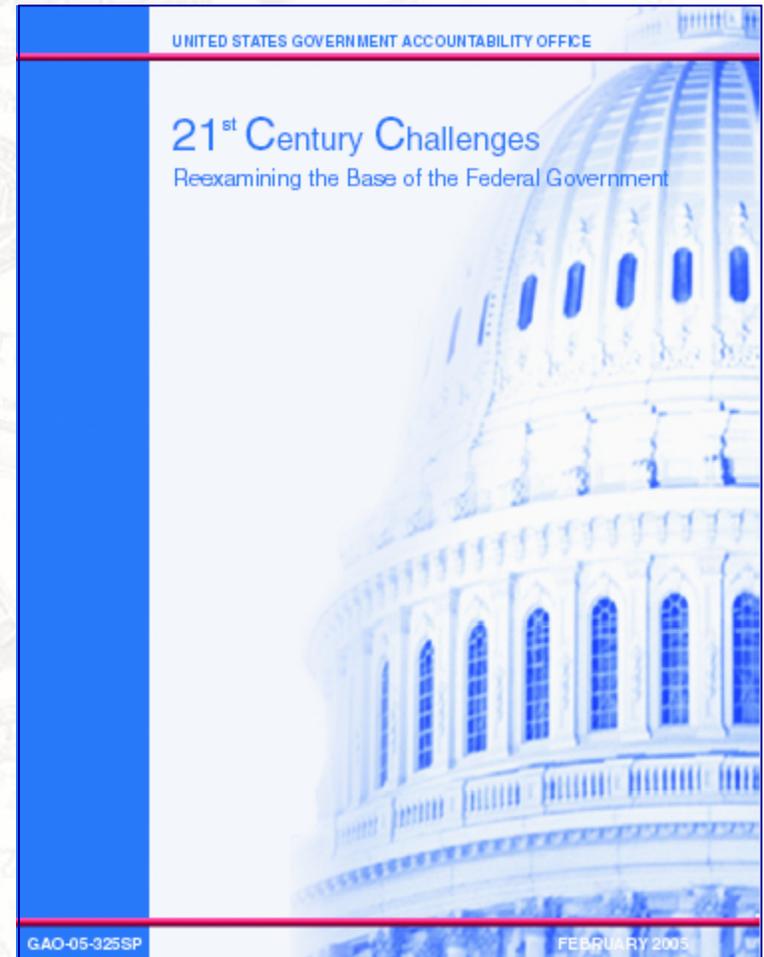
“...it seems clear that the nation’s current fiscal path is unsustainable and that tough choices by the President and the Congress will be necessary in order to address the nation’s large and growing fiscal imbalance.”

The Way Forward

- New accounting and reporting approaches and new budget control mechanisms
- Develop new metrics for measuring the impact of policies and decisions over the long term
- Reexamine the base—question existing programs, policies and activities

21st Century Challenges Report

- Provides background, framework, and questions to assist in reexamining the base
- Covers entitlements & other mandatory spending, discretionary spending, and tax policies and programs
- Based on GAO's work for the Congress
- Issued February 16, 2005



Generic Reexamination Criteria and Sample Questions

■ **Relevance of purpose and the federal role**

Why did the federal government initiate this program and what was the government trying to accomplish?

Have there been significant changes in the country or the world that relate to the reason for initiating it?

■ **Measuring success**

Are there outcome-based measures? If not, why?

If there are outcome-based measures, how successful is it based on these measures?

■ **Targeting benefits**

Is it well targeted to those with the greatest needs and the least capacity to meet those needs?

■ **Affordability and cost effectiveness**

Is it using the most cost-effective or net beneficial approaches when compared to other tools and program designs?

■ **Best practices**

Is the responsible entity employing prevailing best practices to discharge its responsibilities and achieve its mission?

Twelve Reexamination Areas

MISSION AREAS

- Defense
- Education & Employment
- Financial Regulation & Housing
- Health Care
- Homeland Security
- International Affairs
- Natural Resources, Energy & Environment
- Retirement & Disability
- Science & Technology
- Transportation

CROSSCUTTING AREAS

- Improving Governance
- Reexamining the Tax System

Themes

- Changing Security Threats
- Increasing Global Interdependence
- Demographic Shifts—Aging Population
- Promoting Growth in a Knowledge-Based Economy
- Governance Challenges

Illustrative 21st Century Questions:

National Defense

- How should the historical allocation of resources across services and programs be changed to reflect the results of a forward-looking comprehensive threat/risk assessment as part of DOD's capabilities-based approach to determining defense needs?

Homeland Security

- What criteria should be used to target federal funding for homeland security in order maximize results and mitigate risk within available resource levels?

Health Care

- How can industry standards for acceptable care be established and payment reforms be designed to bring about reductions in unwarranted medical practice variation?

Illustrative 21st Century Questions:

Retirement and Disability Policy

- How can federal disability programs, and their eligibility criteria, be brought into line with the current state of science, medicine, technology, and labor market conditions?

Natural Resources, Energy, & the Environment

- To what extent are federal energy policies and incentive structures adequately preparing the nation to satisfy its energy needs over the long term?

International Affairs

- Do we need to reexamine the U.S. force structure used for nation building and peacekeeping activities by the United Nations, NATO, and other international institutions?

Illustrative 21st Century Questions:

Education & Employment

- How can the United States balance immigration policies—such as worker and student visa programs—to address employers' need for particular skills, the nation's need to maintain global leadership in areas such as science and higher education, and the nation's homeland security requirements?

Transportation

- How narrowly or broadly should the federal role and interest in the nation's transportation system be defined?

Financial Regulation & Housing

- To what extent do the tools and incentives increase spending on housing rather than promote affordable housing?

Illustrative 21st Century Questions:

Scientific & Technological Innovation

- How can the United States better develop a world-class technical and scientific domestic workforce that is not as dependent on large inflows of international students and researchers?

Governance

- Is the federal government effectively informed by a key national indicator system about the position and progress of the nation as a whole as a guide to helping set agency and program goals and priorities?

Tax System

- Which tax incentives need to be reconsidered because they fail to achieve the objectives intended by the Congress, their costs outweigh their benefits, they duplicate other programs, or other more cost-effective means exist for achieving their objectives?

Three Key Ingredients Needed for These Challenging and Changing Times

- ***Courage***
- ***Integrity***
- ***Innovation***

GAO's Strategic Plan

SERVING THE CONGRESS AND THE NATION GAO'S STRATEGIC PLAN FRAMEWORK

MISSION

GAO exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

THEMES



Long-Term Fiscal Imbalance

National Security

Global Interdependence

Changing Economy

Demographics

Science and Technology

Quality of Life

Governance

GOALS & OBJECTIVES



Provide Timely, Quality Service to the Congress and the Federal Government to ...

Address Current and Emerging Challenges to the Well-Being and Financial Security of the American People *related to ...*

- Health care needs and financing
- Education and protection of children
- Work opportunities and worker protection
- Retirement income security
- Effective system of justice
- Viable communities
- Natural resources use and environmental protection
- Physical infrastructure

Respond to Changing Security Threats and the Challenges of Global Interdependence *involving ...*

- Emerging threats
- Military capabilities and readiness
- Advancement of U.S. interests
- Global market forces

Help Transform the Federal Government's Role and How It Does Business to Meet 21st Century Challenges *by assessing ...*

- Roles in achieving federal objectives
- Government transformation
- Key management challenges and program risks
- Fiscal position and financing of the government

Maximize the Value of GAO by Being a Model Federal Agency and a World-Class Professional Services Organization *in the areas of ...*

- Client and customer satisfaction
- Strategic leadership
- Institutional knowledge and experience
- Process improvement
- Employer of choice

CORE VALUES

Accountability

Integrity

Reliability

GAO's Core Values Help to Maintain Trust in the Public Sector

- **ACCOUNTABILITY**—describes the goal of GAO's work: to enhance the economy, efficiency, effectiveness, and credibility of the federal government
- **INTEGRITY**—describes the high standards GAO sets for itself and its people: to do work that is professional, objective, fact-based, non-partisan, non-ideological, fair, and balanced
- **RELIABILITY**—describes GAO's goal for how its work is received: to produce reports and other products that are timely, accurate, useful, clear, and candid

GAO's High-Risk List

2005

High-Risk Areas	Designated High Risk
Addressing Challenges in Broad-based Transformations	
Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures	1997
Strategic Human Capital Management ^a	2001
U.S. Postal Service Transformation Efforts and Long-Term Outlook ^a	2001
Managing Federal Real Property ^a	2003
Implementing and Transforming the Department of Homeland Security	2003
Establishing Appropriate and Effective Information-Sharing Mechanisms to Improve Homeland Security	2005
DOD Approach to Business Transformation ^a	2005
DOD Supply Chain Management (formerly Inventory Management)	1990
DOD Weapon Systems Acquisition	1990
DOD Business Systems Modernization	1995
DOD Financial Management	1995
DOD Support Infrastructure Management	1997
DOD Personnel Security Clearance Program	2005
Managing Federal Contracting More Effectively	
DOE Contract Management	1990
NASA Contract Management	1990
DOD Contract Management	1992
Management of Interagency Contracting	2005
Assessing the Efficiency and Effectiveness of Tax Law Administration	
Enforcement of Tax Laws ^{a, b}	1990
IRS Business Systems Modernization ^c	1995
Modernizing and Safeguarding Insurance and Benefit Programs	
Medicare Program ^a	1990
HUD Single-Family Mortgage Insurance and Rental Housing Assistance Programs	1994
Medicaid Program ^a	2003
Modernizing Federal Disability Programs ^a	2003
Pension Benefit Guaranty Corporation Single-Employer Insurance Program ^a	2003
Other	
FAA Air Traffic Control Modernization	1995

^a Legislation is likely to be necessary, as a supplement to actions by the executive branch, in order to effectively address this high-risk area.

^b Two high-risk areas—Collection of Unpaid Taxes and Earned Income Credit Noncompliance—have been consolidated to make this area.

^c The IRS Financial Management high-risk area has been incorporated into this high-risk area.

Competency-Based Performance Appraisal

Objective of new system are to provide a:

- Clear link to our strategic plan, professional standards, protocols and core values
- Fair, honest, accurate and non-discriminatory assessment of performance based on standards that are valid, properly applied, and transparent to employees
- A sound basis for enhancing the performance capacity of all staff, rewarding high-performing staff, and dealing with “below expected” performers

Succession Planning

Training

Promotions

Competency Model

Achieving Results

Maintaining Client and Customer Focus

Developing People

Thinking Critically

Collaborating with Others

Presenting Information Orally

Presenting Information in Writing

Leading Others

Recruitment

Work Assignments

Career Planning

Pay Decisions

Performance Management

Pay Philosophy: Performance-Oriented and Market-Based

Historically

- Pay ranges followed the GS schedule
- Everyone could advance to the pay cap irrespective of their performance—not a matter of if, but when

New Approach

- Pay ranges set to be competitive with the labor markets in which GAO competes for talent
- Everyone can advance to the pay cap—but they must have performance in excess of a certain level to advance beyond a certain point of the pay range (e.g., 75th percentile)
- Pay ranges may overlap in upper part of band pay range to adequately reward expertise, leadership, and performance

Educators Must Deliver the Tools to Address 21st Century Challenges

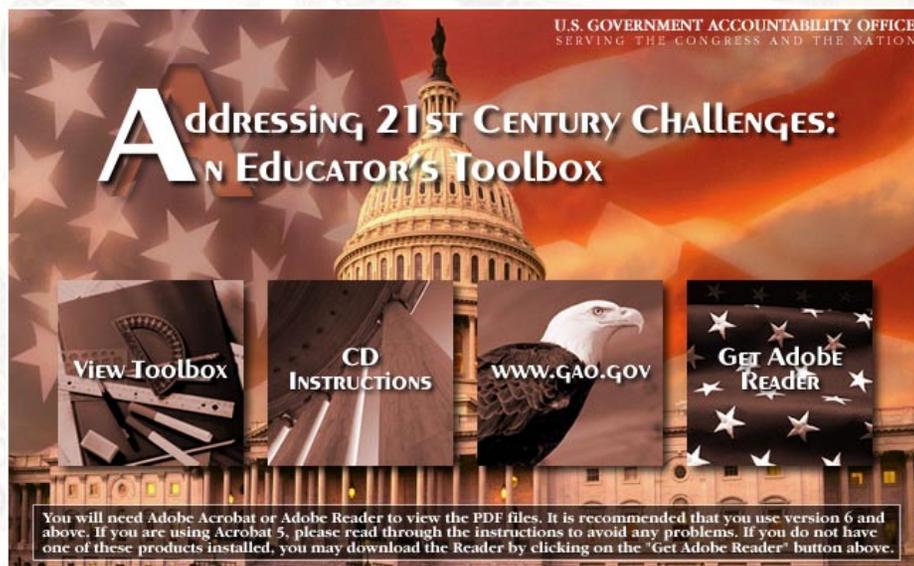
Public affairs educators have a responsibility to ensure that our next generation of leaders has the necessary core values and competencies to address the problems:

- Re-focus curricula
- Pursue key areas of research
- Incorporate outside speakers
- Develop classroom exercises
- Promote relevant dissertation topics
- Raise awareness through op-eds and articles
- Participate in Town Hall meetings and other public fora

Addressing 21st Century Challenges: An Educator's Toolbox

Toolbox Contents:

- 21st Century Challenges
- High Risk Series
- GAO Strategic Plan
- Understanding the Tax Reform Debate
- Social Security Reform: Answers to Key Questions
- Comptroller General's Health Care Forum
- Motor Fuels: Understanding the Factors That Influence the Retail Price of Gasoline
- Federal Debt: Answers to Frequently Asked Questions
- Comptroller General's NASPAA presentation slides



21st Century Issues

Challenges and Opportunities

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