

David M. Walker Speech - National Press Club

Government Challenges in the 21st Century National Press Club, April 23, 2001

DAVID M. WALKER
COMPTROLLER GENERAL OF THE UNITED STATES

INTRODUCTION

- I appreciate the opportunity to be here and to address all of you at the Press Club as well as those of you watching on CSPAN and listening on NPR.
- I've been invited to address you about a number of challenges facing our country and the federal government in the 21st century.
- My remarks today will be based primarily on GAO's work, a vast majority of which can be found on our web site at www.gao.gov.
- Before I begin, it's important to comment on what GAO does and does not do since our name does confuse many people.
- Despite our full name, which is the U.S. General Accounting Office, we do not keep the books and records of the U.S. Government. This is a primary responsibility of the CFO's of the various federal departments and agencies with the Treasury Department and the Office of Management and Budget having certain government-wide responsibilities. We do, however, audit the consolidated financial statements of the federal government.
- GAO is in the legislative branch of government and we help the Congress carry out their Constitutional responsibilities for the benefit of the American people.
- Our mission is to help maximize the performance and assure the accountability of the federal government for the benefit of the American people. Simply stated, we try to make government work better for all Americans. As a result, we are in the accountability business.
- Yes, part of our job is to fight fraud, waste abuse and mismanagement in government. However, the various Inspectors General for each Department and Agency are on the front line in fighting, waste and abuse in their respective agencies. At GAO, we focus more on longer-range and cross-governmental issues, including ways to improve the economy, efficiency and effectiveness of the federal government.
- We perform audits, investigations, evaluations, policy analyses and provide a range of legal services that span the entire scope and reach of the federal government.
- This is a big job since the U.S. government is the largest, most diverse and most complex entity in the world.
- Believe me, we have a full-time job and there is no danger that our services won't be needed over the longer term.
- Importantly, over 90% of our work is at the direction or the request of Congress. As a result, we are very client focused.
- We are also results oriented and dedicated to leading by example. For example, last year we generated over \$23 billion in financial benefits with approximately \$375 million the Congress and the taxpayers invested in us in fiscal 2000. That represents an ROI of about \$61 for every dollar invested. We also helped to achieve a number of other non-financial accomplishments like strengthening weapons systems acquisition practices, improving the quality of care in nursing homes, modernizing federal human capital practices and enhancing computer security within the government.
- In doing our work, we are committed to a set of strict professional standards and core values.
- Finally, with a 15 year term and significant job security, as Comptroller General of the United States, I believe that it's important that we focus not just on today's problems but also on tomorrow's challenges before they reach crisis proportions.
- That's a good transition into the many transitions and key trends that our nation faces at this point in time.

NEW BALL GAME

- We are currently undergoing a number of important transitions:
- From political perspective there are two important transitions underway:
 - New Congress - The Republicans are in the majority but with narrower margins. In addition, there are many new Committee Chairs and Ranking Members.
 - New Administration - The Bush Administration has now come to town but only a fraction of the key players are in place at this point in time.
- From a fiscal perspective we are transitioning from a period of past deficits to a period of continued and projected surpluses.
- From an economic perspective we are transitioning from the industrial age to the knowledge age. In the knowledge age, people will be the key factor in attaining and maintaining a competitive posture.
- From a timing and psychological perspective, we have entered a new millennium. The beginning of the 21st century creates a natural tendency to reflect on the past and contemplate the future.
- There are certain key trends that are undeniable and which have significant implications for the United States and many other industrialized nations around the world. These include:
 - Globalization - Globalization of markets, information and enterprises. There are no islands in today's wired, inter-connected and inter-dependent world.
 - Changing demographics - Aging societies, longer life spans, decreasing worker to retiree ratios, slower workforce growth, greater diversity and growing skills gaps.
 - Changing security threats - The Cold War is over and we won! We now face more diverse and diffuse security threats that range from weapons of mass destruction of various types, to illegal drugs, to infectious diseases to cyber attacks. These threats are from rogue nations and groups in a more open border environment.
 - Rapidly evolving technologies - These new technologies provide opportunities to increase productivity and decrease cost but they also pose an increased threat to national security and personal privacy. They can also lessen emphasis on the critical human element.
 - Quality of life considerations - From education, to the environment, to work-family issues to urban sprawl, quality of life is becoming an increasing issue of interest for many people.

- Rising health care costs - The resurgence of health care costs due to a variety of factors will put increasing pressures on governments, employers and individuals in the years ahead. We have a huge imbalance between what people want, versus what they need versus what we can afford in this critically important area. Stated differently, there is a huge imbalance between what has been promised and the resources that are likely to be available in this area, especially in connection with Medicare.
- Devolution - Devolving more activities closer to the people and from the government to the private and not for profit sectors leads to shared responsibilities and increased accountability challenges.
- These trends present us with a range of emerging issues and impact a number of long-standing challenges relating to the federal government. I'll touch on a few to illustrate this point.

SELECTED EMERGING ISSUES

- Long-range budget challenges
- While CBO's most recent ten year budget projections showed higher projected surpluses, their long-term projections were worse, primarily due to known demographic trends and rising health care costs
- While budget projections are necessary, they are inherently uncertain, especially the further out you go. At the same time, demographic projections are much more reliable because they involve people who are alive!
- Our budget picture has changed dramatically since 1962. In 1962 over two-thirds of the federal budget was discretionary and 50% of the federal budget was dedicated to defense.
- In fiscal 2000, about a third of the federal budget was discretionary and only 16% of the budget was dedicated to defense.
- The reductions in defense spending during the past 38 years went to health care, Social Security and interest on the federal debt. This wasn't a conscious trade off; it's just what happened. Importantly, the costs for the two largest of these (health care and Social Security) are only going one way under our current system, and that's up! In addition, it's debatable how much interest on the federal debt will go down because of pent-up demand for tax cuts and spending increases after years of fighting budget deficits.
- Based on GAO's latest budget simulations, if policymakers decide to save every penny of the Social Security surplus but spend the entire "on budget" surplus, we will enter a period of escalating deficits and debt within 20 years. In addition, absent significant fiscal policy changes, by 2030 discretionary spending would have to be cut by almost half and, because of rapidly escalating costs, eliminated before 2040! There are alternatives, like significantly raising overall tax burdens or further mortgaging the future, neither of which are very attractive options.
- Guess what is in discretionary spending? National defense, our judicial system and education programs just to name a few.
- Given these long-range fiscal challenges, we must be prudent about how to handle the current surplus while getting on with entitlement reform if we want to avoid a train wreck down the road.
- Human capital crisis
- 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 make the difference between success and failure.
- Yes, business processes and technologies are important, but people are essential.
- Unfortunately, the government and many other employers have all too often treated their employees as a cost to be cut rather than an asset to be valued. This must change!
- Due to the numbers driven and inadequately planned downsizing campaign of the 1990s, the federal workforce is smaller. However, it's also out of shape, has a range of skills imbalances and is facing a huge succession planning challenge.
- As a result, we recently put "strategic human capital management" on our "high risk list". 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 workforce for the federal government. We must also move over time to build a consensus for more comprehensive civil service reforms.
- We can't afford not to have top quality people involved in the largest, most complex, most important entity and the only superpower on earth, the U.S. government. The stakes are simply too high to do otherwise.
- Finally, given the key transitions and trends that I discussed, we must also review both federal and private sector workforce policies and practices in light of the key trends noted above.
- The Postal Service
- The U.S. Postal Service is the second largest employer in the United States with over \$65 billion in annual revenues.
- It serves an important public purpose but is facing increasing competitive and other pressures from both domestic and foreign sources.
- The Postal Service lost \$200 million last year and is projected to lose \$2-3 billion this year, despite the recent postal rate increase.
- The basic statutory framework that governs the Postal Service has not changed since 1970 despite the fact the world has changed significantly and will change even more in the future.
- These and other factors caused us to put the Postal Service's transformation effort on our "high risk list" less than a month ago.
- The time has come to take a comprehensive look at the governance structure, management practices, labor policies and statutory framework relating to the Postal Service.
- Simply raising postal rates is not the answer, we must deal with a range of structural challenges.
- This will be tough but it is necessary.
- The Postal Service challenge is too big to ignore. It also illustrates the need to re-look at a range of federal policies, programs and practices in light of the key trends I discussed earlier.
- In addition to these illustrative emerging issues, we face a number of continuing challenges. I'll just touch on three.

CONTINUING CHALLENGES

- Federal Financial Management
- The federal government has been a "lag indicator" in connection with financial management and accountability factors.
- It's only been in the last ten years that the federal government started publishing annual financial statements and the consolidated financial statements have only been

subject to audit for four years.

- While progress is being made in this area, much remains to be done.
- The simple fact of the matter is that no private sector enterprise could survive with the type of financial management system the federal government has.
- While 18 of 24 major federal departments and agencies received "clean opinions" on their FY '00 financial statements, only 6 of 24 had clean opinions, no material control weaknesses and no major compliance problems.
- In addition, many of the clean opinions were only obtained through "heroic efforts." These involved committing significant human and financial resources to reconstruct the statements months after the end of the fiscal year.
- This is not the way to run any enterprise, and it must change!
- Government leaders have a responsibility and the taxpayers have a right to assure that the federal government has appropriate systems and controls in place to safeguard taxpayer dollars and assure government accountability.
- Other countries much smaller than the U.S. have done this, it's time that we did as well.
- In addition, federal reporting standards must place additional emphasis on performance information, long-range commitments and contingencies, and the government's most valuable asset, its employees.
- Federal Acquisition and Sourcing Strategies
- While the federal workforce is smaller, the "shadow workforce" has grown dramatically during the past 10 years.
- The "shadow workforce" is primarily comprised of contractor personnel who are performing services for the federal government.
- In addition, more and more functions are being devolved to lower levels of government and to non-governmental sources.
- This raises a number of policy, equity and accountability issues.
- We need to fundamentally review and reassess a range of federal policies, procedures and practices in these areas.
- In doing so, we must balance the interests of a variety of key stakeholders such as taxpayers, contractors, the government and federal workers.
- I am hopeful that the recently announced Commercial Activities Panel that I will chair will be able to help make some meaningful progress in this important area.
- Defense Department Business Process Transformation
- We have the best military forces on earth.
- We have proved that "we are number one" on the battlefield in recent years.
- Yes, the Defense Department is, at least in this regard, an "A" on effectiveness. However, DOD is a D+ at best on economy, efficiency and related accountability.
- DOD has 6 of the 21 of the agency specific "high risk" areas within the federal government.
- It also is affected by both of the government-wide "high risk" areas.
- In addition, DOD's poor financial management and reporting practices represent one of the primary roadblocks to rendering a clean opinion on the federal government's consolidated financial statements.
- DOD's economy, efficiency and related accountability problems result in billions of wasted dollars. Dollars that could be better spent on readiness, the quality of life for our uniformed personnel, and closing the gap between wants and available funding in connection with major weapons systems.
- DOD must change the way it does business, and this will be tough given the culture within DOD and other challenges.

CLOSING

- 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:
- What is the proper role for the federal government in the 21st century?
- How should the government do business in the 21st century?
- The first question raises a range of public policy questions that must be answered by elected officials. It involves re-looking at a range of government programs, policies and tools of government in light of past and expected changes and future challenges. In addressing this question, GAO will help by getting the facts, analyzing the situation and providing options so policymakers can make timely and informed judgments.
- The second question is more operationally oriented. GAO will continue to aggressively pursue this area to identify problems and make related recommendations. We will also continue to provide tools and information designed to help others, help themselves make progress in a range of areas.
- In doing both, we will remain committed to our professional standards and core values of: accountability, integrity and reliability.
- The press can play an important role in helping to identify problems while also recognizing noteworthy accomplishments in important areas.
- Let's work together to make government work better for all Americans.
- Thank you for your time and attention.
- I'd be happy to answer any questions you may have.



[Press Center](#)
[Contact Us](#)
[Inspector General](#)
[Restricted Reports](#)

[Copyright & Terms of Use](#) [FOIA Requests](#)
[Privacy Policy](#) [Scam Alerts](#)
[Accessibility](#) [No FEAR Act Data](#)
[Sitemap](#)