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Presentation by  
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# Making Tough Choices

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It is a pleasure to be here and to have the opportunity to address AARP's annual meeting as a member of this panel. I have been a member of AARP for about two years. More importantly, I have worked with AARP in several government and private sector capacities on a number of issues of mutual interest and concern in the past, and I expect to continue to do so for many more years in the future.

As Comptroller General of the United States and head of the GAO, I and my fellow GAO colleagues are in the truth, transparency, and accountability business. Importantly, at GAO, we are professionals and not politicians. Therefore, I'm here today to tell you the truth about several important issues.

First, the financial condition of the United States government is worse than advertised. Our nation's real fiscal challenge is not today's deficits and debt levels; it's where we are headed in the future if we don't start making tough choices soon.

The truth is, irrespective of the costs associated with Iraq and the Global War on Terrorism, the federal government faces large and growing structural deficits in future years due primarily to known demographic trends and rising health care costs.

Furthermore, in the past six years alone, our nation's total liabilities and unfunded commitments for Social Security and Medicare have grown from about \$20 trillion to over \$50 trillion, of which about \$8 trillion relates to the new Medicare prescription drug bill.

We are increasingly relying on foreign investors to finance our debt since Americans are great spenders but poor savers. Being able to borrow from these foreign players helps us in the short term. However, relying on them to the extent that we have will serve to increase our fiscal risk and reduce our international influence over time.

State and local governments also face long-range fiscal challenges due to Medicaid, unfunded retiree health plans, underfunded pension plans, and deferred maintenance costs on key infrastructure. Therefore, our real fiscal challenge is national versus just federal in nature.

With regard to the federal budget, the composition of the overall budget has changed dramatically since the founding of our republic in 1789. For example, in fiscal year 2006 only 38 percent of the federal government related to so-called discretionary spending and the rest of the budget was on autopilot. Believe it or not, discretionary spending includes things like national defense, homeland security, our judicial system, foreign relations, the nation's treasury functions, the Congress, and the Executive Office of the President. In fact, today's discretionary spending includes all of the main functions of the federal government at the end of George Washington's second term as President in 1797.

More recent budget trends are also telling. In 1966 Medicare and Medicaid represented only about 1 percent of the federal budget. In 2006 they represented 19 percent and their portion of

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the federal budget is on the rise. In addition, Medicaid represents the fastest growing cost for most states.

While the Social Security, Medicare, and Medicaid programs are important and will not go away, they do not relate to functions that are expressly reserved for the federal government under the Constitution. Let me be very clear: These important social programs are important and they are here to stay. However, they are unsustainable in their present form, and the sooner we make changes, the fewer the changes we'll have to make in order to keep them solvent, sustainable, and secure for both current and future generations of Americans. Furthermore, the sooner we make needed changes, the more transition time we will have for all affected parties to adjust to them.

The plain but simple truth is that a status quo path for our federal government is imprudent, unsustainable, and arguably immoral. As George Washington once said, we should avoid "ungenerously throwing upon posterity the burden that we ourselves ought to bear." These are timeless words of wisdom that more policymakers should both hear and heed.

The truth is, we are mortgaging the future of our country, children and grandchildren, and it's scheduled to get worse in the future when the baby boomers retire in big numbers. Believe it or not, the first baby boomer becomes eligible for early retirement under Social Security in less than four months, and just three years later baby boomers will be eligible for Medicare.

Given these facts, we need to start making tough choices sooner versus later if we want to keep America great and make sure that our future is better than our past. After all, that's what leadership and stewardship are all about.

What type of tough choices am I talking about? We need to bring back tough budget controls, tougher than the ones we had in the past. We need to improve transparency in connection with current financial reporting and budget processes. We also need to engage in several key reform efforts, including comprehensive Social Security reform, health care reform, and tax reform, just to name a few. It may take a capable, credible, and bipartisan commission for us to be able to accomplish this last item.

With regard to Social Security, we can and should reform Social Security in a way that does not harm current retirees or those nearing retirement while making the overall program solvent, sustainable, and secure for future generations. In fact, we have an opportunity to exceed the expectations of every generation of Americans in connection with Social Security reform. Candidly, this should be easy and I would be happy to answer a question on how we can reform Social Security and achieve this objective during the question-and-answer portion of this panel.

With regard to health care, we must recognize that we will need to engage in comprehensive reform of our entire health care system over time and in installments. In the final analysis, we ultimately need to achieve four key objectives. First, we need to ensure that all Americans have

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access to “basic and essential” health care as a fundamental right of citizenship. Second, we need to place a cap as to how much of the federal budget will be allocated to health care in order to prevent excessive debt levels and/or tax burdens in the future. Third, we need to leverage technology and design and implement evidence-based practice standards to improve quality, enhance consistency, control costs, and reduce litigation. Fourth, we need to incorporate appropriate incentives and accountability mechanisms for individuals to improve their individual health and wellness.

Finally, we need to engage in comprehensive tax reform that will improve the equity, efficiency, and credibility of the federal system. At the same time, our tax system needs to generate enough revenue to pay our current bills and deliver on our promises without doing serious damage to our economic growth or international competitive posture. In the end, we will need to generate more revenues as a percentage of the economy than has historically been the case. However, there is no way we can or should rely primarily on additional revenues to solve our long-range fiscal challenge. Entitlement reform and spending constraint will also be essential for us to succeed.

Let’s face it; absent meaningful actions by our elected officials, higher deficits and mounting debt burdens will ultimately mean much higher tax levels and lower relative standards of living for our grandchildren. I don’t know about yours, but my three grandchildren are way too young to vote! I care about my three grandchildren and I’m sure that you also care about yours. As a result, I believe that it’s time for our elected officials to heed Washington’s timeless words of wisdom and start treating our grandchildren the way we would want to be treated.

Thank you for your time and attention.

