

NATIONAL PRESS CLUB LUNCHEON WITH DAVID WALKER, COMPTROLLER GENERAL OF
THE
UNITED STATES

SUBJECT: A FINANCIAL REPORT ON THE U.S. GOVERNMENT

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MR. ZREMSKI: Good afternoon, and welcome to the National Press
Club. My name is Jerry Zremski, and I'm the Washington Bureau Chief
for the Buffalo News and president of the National Press Club. I'd
like to welcome our club members and their guests who are joining us
here today, as well as those of you who are watching on C-SPAN. We're
looking forward to today's speech, and afterwards, I'll ask as many
questions as time permits. Please hold your applause during the
speech so that we have as much time for questions as possible. And
for our broadcast audience, I'd like to explain that if you hear
applause, it may be from the guests and members of the general public
who attend our luncheons, and not necessarily from the working press.
(Scattered laughter.)

I'd now like to introduce our head table guests and ask them to
stand briefly when their names are called. From your right, Peter

Harkness, publisher of Governing magazine; Tim Clark, editor in chief
of Government Executive; Nina Easton, Washington editor for Fortune
magazine; Robert Steel, under secretary for domestic finance at the
U.S. Department of the Treasury; David Hess, a reporter for
CongressDaily and a former president of the National Press Club; Clay

Johnson, deputy director for management at the Office of Management and Budget and a guest of the speaker; skipping over the podium, Angela Greiling Keane of Bloomberg News and the chair of the Press Club's speakers committee; skipping over our speaker for just one moment, Ken Delecki, freelance editor and writer and speakers committee member who organized today's event; Robert Bixby, executive director of the Concord Coalition and a guest of our speaker; Marilyn Geewax of Cox Newspapers; David Broder of The Washington Post; John Hurley, correspondent for the McClendon News Service and commander of the National Press Club's American Legion Post 20; and John Allen, reporter for Congressional Quarterly. (Applause.)

Political science, military intelligence, government accountability. Oxymorons? Yes, sometimes. But our speaker today has the big job of making sure that that last term is anything but an oxymoron. David M. Walker is the comptroller general of the United States and the head of the Government Accountability Office -- the investigative arm of Congress and the government's chief watchdog. He is also a man with a mission. He is warning Americans of a fiscal tsunami guaranteed to swamp the nation in a sea of red ink if steps are not taken now. Walker has been trying to make fiscal responsibility a major issue in the current presidential campaign. At the very least, he's trying to make it as big an issue as how many border patrol agents the next president hires. He notes that Americans cannot defy their demographic destiny, which includes the impending retirement of millions of Baby Boomers who will qualify for Medicare and Social Security benefits that the nation is ill prepared to fund.

Walker began his 15-year term as the nation's seventh comptroller general in 1998. The 15-year term is designed to insulate the comptroller general from partisan politics and it seems to be working. Walker has been unsparing in his criticism of the White House and both sides of the aisle in Congress for their failures to address the nation's long-term fiscal challenges. That should be no surprise because Walker came to the GAO well prepared to serve as the government's chief watchdog. Between 1989 and 1998, he was a partner and global director of the human capital services practice of the Arthur Andersen accounting firm. He was a registered financial advisor and a member of the board of Arthur Andersen Financial Advisers, and from 1990 to 1995 he also served as a public trustee for Social Security and Medicare. He is the author of a book on retirement planning and of numerous articles on financial and human resource issues, and now he returns to the National Press Club podium with a message for the men and women who want to be president -- that they should not just be thinking about the next four or eight years. Ladies and gentlemen, please help me in welcoming David Walker back to the National Press Club. (Applause.)

MR. WALKER: Thank you for that kind introduction. It's a pleasure and an honor to be back at the press club and to be sitting on the same podium here with a number of the very capable individuals here at the head table, a number of which are friends of mine. Good afternoon, ladies and gentlemen. Thank you for coming today. I know that some of you were in this same room back in September of 2003 when I gave a speech entitled, "Truth and Transparency". In that speech, I urged the federal government to provide a more complete and reliable

view of where the nation stands financially and where we're headed fiscally. Those of you that were here that day may recall that during my speech I expressed particular concern about the cost of the then pending proposal to add a Medicare prescription drug benefit.

Little over four years have passed since I gave that speech and I felt the time was right to come back and provide a status report on America's finances. Where do we stand today? Are we on the right course, and if not, what do we need to do to turn things around? I'll address these questions and also speak about two documents that are being issued today -- the Treasury Department's consolidated financial report of the United States 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 21st Century Challenges", which is also being released today.

I'll start with where we stand fiscally and financially today. This morning the Treasury Department released the 2007 financial report of the United States government. I'm sure all of you have read it closely. (Laughter.) Candidly, if the federal government were a private corporation and the same report came out this morning our stock price would be dropping and some people would be talking about whether or not the company's management directors needed a major shakeup. Why do I say this? Because if you look at today's report you'll see that for the eleventh straight year the GAO was unable to express an opinion on the consolidated financial statements of the U.S. government primarily due to management problems with the Department of Defense. GAO also noted a number of 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 government's consolidated financial statements. Specifically, GAO expressed an unqualified opinion on the statement of social insurance. That statement includes the largest numbers in the federal government's financial statements. To put things in perspective, we're talking about numbers in the tens of trillions of dollars in current dollar terms. One of the reasons that we could issue an unqualified opinion on this statement is because the Department of Defense has nothing to do with this statement. When it comes to the American -- America's financial condition are we on the right course? The answer is yes and no. It just depends on your time horizon. From a short-term deficit it's very 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 bonds held in the so-called quote, unquote "trust funds". Having been a trustee of Social Security and Medicare and given the structure of the current arrangement, 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 -- there's nine zeros to the right of that number -- much

higher than the widely publicized unified deficit of \$163 billion. The accrual base net operating deficit in the financial statements was \$276 billion and of these amounts about \$120 billion related to Iraq, Afghanistan, and the global war on terrorism.

Candidly, our current deficit and debt levels are not unduly troubling as a percentage of our economy. They're not the problem. However, these deficit levels and related debt burdens are set to escalate dramatically in the near future due to the retirement of the Baby Boom generation 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 benefit payments promised under the current Social Security and Medicare programs are now estimated at \$53 trillion. Add 12 zeros to the right of that number.

Fifty-three trillion in current dollar terms up from 20 trillion (dollars) in the year 2000. This translates to a de facto mortgage of about \$455,000 for every American household and there's no house to back that mortgage. In other words, our government has made a whole lot of promises that in the long term it cannot possibly keep without huge tax increases. The Medicare program alone represents about 34 trillion (dollars) of the \$53 trillion fiscal gap. If there's one thing in particular that could bankrupt America it's runaway health care costs. And don't forget: The first baby boomer will begin drawing early retirement benefits under Social Security in a couple of weeks. And just three years later, they will be eligible for Medicare. And 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 an \$8 trillion price tag out of Medicare's \$34 trillion gap. Incredibly, this number was not disclosed or discussed until the Congress had voted on and the president had signed the related bill into law. Generations of Americans will be paying the price with compound interest for this new entitlement benefit. In many ways, the 2003 prescription drug benefit arguably represents government truth and transparency at its worse. 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 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 autopilot 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, the executive office of the president -- are all in the remaining 38 percent of the budget and this portion of the budget is set to get squeezed.

Unfortunately, many Americans are in denial about the seriousness of our situation. Relatively low interest rates, modest inflation

rates, low unemployment levels are partially to blame for this false sense of security. The truth is, too many American families are following the poor financial practices employed by their federal government. They're spending more money than they make, taking on more debt and incurring compound interest costs. Both America and

Americans -- too 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 certified public accountant and head of the GAO and I can tell you that I myself at times struggle to get through some of this information. I'm sorry to say that the consolidated financial report of the U.S. government, which the Treasury Department released today, could fall into this category. As a result, it will not be read by many.

Given that fact, GAO has been working with the Treasury Department in the Office of Management and Budget 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 that Treasury issued today. Hopefully, it will be both useful and used.

The first summary annual report is scheduled to be released in mid-January of 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 that policymakers, the press and the public will spend just a few minutes to read this newly formatted document. I'm confident that if they do, they'll have a much better grasp of the large and growing fiscal challenge facing our nation.

Special recognition and thanks goes to OMB, as well as the Treasury Department, for this effort -- in particular, Undersecretary of the Treasury Bob Steel, one of my guests today, who spearheaded the Treasury Department's efforts on this project. Thank you, Bob. I appreciate that.

The summary annual report is a positive step to help us better understand our fiscal challenge, but far more dramatic action is necessary for us to solve the problem. GAO is working with members of Congress on both sides of the aisle on both ends of the Hill -- as well as OMB, CBO and others -- and is currently drafting a proposed transparency and accountability act. Among other things, the GAO proposal that we're working on would require greater transparency in connection with the longer-term costs 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 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 of the federal government's consolidated financial statements includes an outlook by the administration in the management discussion and analysis section. They should be commended for this. This analysis serves to reinforce

the fact that the U.S. government is on an imprudent and unsustainable long-term fiscal path, but we must do 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 widespread myopia, tunnel vision and self-centeredness in Washington, D.C. President Reagan had it right when he said, "Washington is an island surrounded by a sea of reality." This gap needs to be closed through increased public education and a more active 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 or heard 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 is on ideological debates and partisan attacks, and they're designed to entertain rather than to inform the public. I realize that in America everybody's entitled to his or her own opinion, however, people are not entitled to their own facts.

To counter political spin and to help educate the public about the real state of America's finances, I joined with the Concord Coalition -- Bob Bixby here today -- the Brookings Institution, the Heritage Foundation and others to embark on the fiscal wakeup tour in September of 2005. So far we've gone to over 30 cities and 25 states. We've also spoken to a number of business and civic groups, editorial boards and local media experts in all of these cities. Many more stops are planned with an emphasis on critical swing states for the presidential election. And in every one of these cities, we hold a publicly open town hall meeting where, unlike many political town hall meetings, we actually want a lot of people to show up and to be able to express their views and ask questions. I'm talking about once you're elected into office, people typically don't want big town hall meetings, but when you're trying to get elected to office it's a different story, obviously.

None of us are running for president, I might add, and if you heard us on the fiscal wakeup tour, you'd know why. (Laughter.) Media reaction to the wakeup tour has been overwhelmingly positive. A segment on the CBS news program "60 Minutes" was shown twice earlier this year and it 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". (Laughter.) There have been numerous op-eds, editorials and articles in newspapers and periodicals around the country. I appreciate the important role that 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 deficits message, namely our budget, savings, balance of payment and leadership deficits, is nearing completion. The film features Bob Bixby, myself and others. The tentative title is "I.O.U.S.A.," and the documentary is set for 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 film will be nominated for an Oscar. (Laughter.) I don't know about Bob Bixby, but I know I'm not planning to quit my day job for a Hollywood career. (Laughter.)

What have we learned from 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. Secondly, most Americans don't have a high opinion of either branch of government or of either major political party. Third, most Americans are starved for two things: truth and leadership. It's time that 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 get it. In addition, most are willing to make 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 choices sooner rather than later. As Albert Einstein, pretty bright guy, is reported to have said, the most powerful force on earth is not nuclear energy, it is the power of compounding. And when you're an investor, the power of compounding works for you, and when you're a debtor -- and the United States is the world's largest debtor -- the power of compounding works against you. 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 request that we may be able to give them.

So where do we go from here? First, we need to reimpose 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 bipartisan commission or task

force, like the Safe Commission proposed by Congressman Cooper and Wolf, or a task force proposed by Senators Conrad and Gregg. Such an entity could help to 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 limited and far worse. In my view, it is in everyone's best interest 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, to reach a consensus on meaningful reforms and to discharge our fiduciary and stewardship responsibilities. This is why I believe that the next president of the United States must make fiscal responsibility and intergenerational equity one of his or her three top priorities. If that is the case and the next president is willing to work in a constructive and bipartisan basis to help achieve needed

reforms, we can turn things around; if not, I think it's only a matter of time before we face a crisis.

And I'm not the only one that believes that, including the former chairman of the Fed, Paul Volcker.

I've discussed so far the government's growing fiscal imbalance, but you know, we have a number of other sustainability challenges beyond fiscal matters. For example, it's pretty clear that much of the federal government isn't well aligned to meet the challenges of the 21st century. Too few agencies are well-positioned to meet these challenges and to capitalize on emerging opportunities. The truth is, much of the federal government today is on auto-pilot and reflects social conditions and spending priorities that date back to the 1950s or the 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.

Unfortunately once federal programs or agencies are created, the tendency is to fund them in perpetuity. Washington rarely questions the wisdom of existing commitments. Instead it simply adds new programs and initiatives on top of old ones.

Again President Reagan had it right when he said, the closest thing to eternal life on this earth is a federal program. (Laughter.) You might add a federal tax preference too, but just to be fair. This continuing layering is a key reason why our government has grown so large, so expensive, so inefficient and, in some cases, so ineffective.

As Clay Johnson and I know firsthand, 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 government spends nearly \$3 trillion, foregoes revenues of about \$800 billion a year on various tax preferences and issues thousands of pages of regulations. Unfortunately our federal government does this without, in many cases, knowing which federal activities are making a real and meaningful difference and which are not. On this basis alone, I'd venture to guess that waste across the federal government could involve hundreds of billions of dollars a 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 is 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 reexamination, reprioritization and reengineering of the base of the federal government.

We are out of shape and we're on an unsustainable path, and it's time that we recognized that reality. Gross domestic product, unemployment figures, violent crime statistics, infant mortality rates, math and science proficiency and air quality indices are all

examples of commonly used outcome-based indicators. A key national indicator system pulls together various measures to tell a more complete story of how the country is doing and how we compare to others.

It matters how a nation keeps score. Indicator systems are fact-based information and with more comprehensive and fact-based information, policymakers are more likely to ask good questions. They're also more likely to propose sound solutions and to 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 a not-for-profit group, called the State of the USA, and other organizations. Their efforts deserve more attention and support.

The reality is, in addition to our fiscal challenge, the U.S. faces several other key sustainability challenges. They include things like our health care system, education, energy, environmental protection, immigration, critical infrastructure policies, just to name a few. How can Congress and the president begin to sort out these challenges and take steps now, before these challenges become a crisis tomorrow?

At GAO, we're trying to make sure that the nation's leaders have the tools necessary to meet this challenge. And the report that I referred to earlier is an additional tool, in a portfolio that we started issuing in 2005, to help the government do just that. It includes 13 potential tools for the Congress and the administration to use to begin to confront our long-term fiscal and other challenges. It's our latest edition in a portfolio of forward-looking, outcome-based products.

Our latest report shows that the United States is not alone in facing a range of major challenges. In fact, GAO and representatives of 150-plus other supreme audit institutions around the world gathered in Mexico City last month, to address two issues of global concern. 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 more than a little to do with putting this on the agenda.

But given these things, as I come to a close, I'd ask you to 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 results-based indicators. A day when government leaders provide timely and reliable performance information to their citizens in order to assess the 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 help create a better tomorrow. When that day comes, we will have made a real difference, not just for our nation and for our fellow citizens, but for all mankind.

As head of one of the leading supreme audit institutions in the world, the GAO, I can assure you the GAO will do its part to help address these and other key stewardship challenges. 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 our 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.

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 me in the fight to help keep America great. Your children, your grandchildren and generations yet unborn will be glad that you did.

Thank you very much. (Applause.)

MR. ZREMSKI: We have a lot of questions, some about the short-term budgetary issues, a lot about entitlements as well, starting with this: In the 1980s and 1990s, Congress was able to forge a degree of bipartisan cooperation when it came to controlling federal spending.

Do you see any chance of that developing again? Where are the Gramms and Rudmans?

MR. WALKER: I think it can develop again, but it's going to need some help. And I think the help is going to need to be a commitment by the White House, a commitment by a few leaders on both sides of the aisle and both ends of the Hill to help focus on the future and to help work on some of these tough problems on a nonpartisan basis, or a bipartisan basis, realistically. I also think it's going to need help through some type of a commission, as I mentioned, or a task force, in order to set the table for the next president and the next Congress to be able to make tough choices and to have political cover to act.

MR. ZREMSKI: Is there anything about today's politics that just makes it much more difficult than it would have been for Gramm and Rudman 20 years ago?

MR. WALKER: We've always had partisanship in the history of this country, to one degree or another, and that continues today. You have very close margins. You have a situation where through redistricting efforts, you not only have a partisan divide, you have an ideological divide. And I'm personally more concerned about the ideological divide than I am the partisan divide, and let me tell you what I mean by that.

In the House of Representatives, you only have about 60 seats

that are truly swing seats. That means that you know in advance, a significant majority of the seats are going to be Democratic seats, or they're going to be Republican seats. That means that if you're ??? which means that there's not much of a middle ground.

And now, we have more people moving from the House to the Senate. It takes 60 votes to get anything done in the Senate. We all know that and so, as a result, it's not just a matter of the partisanship; it's the ideological divide that is really a concern.

MR. ZREMSKI: The House unveiled its omnibus spending bill today, wrapping up all the domestic appropriations into one bill. This comes nearly a full quarter into fiscal 2008. Is the budget process broken? And what ramifications does this have for the fiscal issue writ large?

MR. WALKER: The budget process is broken and it's been broken for several years. There's only one expressed and enumerated responsibility under the Constitution of the United States for the Congress to perform annually, and that's appropriations, and there's a lot of room for improvement.

MR. ZREMSKI: The administration says the deficit would be higher if the government used accrual instead of cash flow accounting. If accrual is a more accurate way of doing this, why isn't it being used by the federal government?

MR. WALKER: The federal government does use accrual accounting. We don't use accrual budgeting but we do use accrual accounting. And the financial statements of the United States government, which I referred to today, that were issued by the Treasury Department, are on an accrual basis.

Now, some people have a debate as to whether or not we ought to be accruing more of the costs associated with Social Security and Medicare, those tens of trillions of dollars, more than we have so far. That's a legitimate discussion and debate, but the federal government already has accrual accounting for financial statement purposes.

MR. ZREMSKI: Democrats came to Congress vowing to cut back on earmarks. How have they done?

MR. WALKER: Well, first, we'll have to wait and see what bill ultimately gets signed into law, I guess. I know they've been more concerned with earmarks. By the way, GAO has a report that's going to be coming out next month on congressional directions, aka earmarks, on behalf of some, and because I think there's a lot of misunderstanding as to what earmarks are and what they're not.

Earmarks by themselves represent, depending upon which year you talk about, one-to-two percent of federal spending. Earmarks by themselves don't necessarily increase federal spending. They tell the applicable agency how you must spend the money that you've been given.

So they don't necessarily increase spending, but they clearly do undercut the process. They cause a credibility problem. We clearly need to do more about them.

But you could eliminate every earmark and that doesn't necessarily reduce federal spending. The worst of all worlds, in my mind, is when the crunch comes and we really get -- have really tough budgets to deal with, then the worst of all worlds is less resources and less discretion. That means having less resources and more earmarks, which means you have less discretion to allocate your resources based upon value and risk, and that, I think, would be a major problem.

MR. ZREMSKI: How damaging has the Iraq war been to the nation's fiscal situation?

MR. WALKER: The Iraq war has cost several hundred billion dollars. The Iraq war will end up costing well over a trillion dollars by the time you end up counting current and deferred costs. The Iraq war obviously hasn't helped our fiscal situation, but the tide of red ink that we face is multiple times greater than the cost of the Iraq war.

In the end, the Iraq war will come to an end. When and on what terms, all these things are yet to be determined. At the same point in time, the types of forces that I talked about in my talk, these are not temporary forces, these are long-term structural forces that involve amounts of money that far, far exceed anything that the Iraq war will cost.

MR. ZREMSKI: Has the creation of the Department of Homeland Security and its various programs made the fiscal problem worse? And has the spending on post-9/11 homeland security efforts been worth the money?

MR. WALKER: Well, first, Homeland Security is a fairly large agency. I think its, you know, budget is, what, around \$40 billion a year or something like that -- off the top of my head? Please don't -- it's not referenced by GAO, so please don't take that as an audited number. You know, and it is a large and a very important agency. It is a challenged agency. Its integration and transformation effort is on GAO's high-risk list.

I think the answer to the question as to whether it's been worth the money, it depends on which element you're talking about. There are clearly elements that have been successful, there are other elements that have not been successful, and it's a work in progress.

MR. ZREMSKI: For example, some of the Homeland Security grant programs that have been created.

MR. WALKER: Well, one of the things I think we have to recognize is, when you have finite resources -- and we do; when you have huge and diverse risk -- which we do; when you're living in an environment where there's no such thing as zero risk, you can never be fully protected and you never, ever will be fully protected, you need more flexibility to be able to allocate the limited resources you have to mitigate the most risk and to add the most value. That means that both the Congress and the executive branch need to have the flexibility, the Congress needs to provide that flexibility, the executive branch needs to execute that flexibility, and both have to

be held accountable to the American people.

MR. ZREMSKI: Which do you think is ultimately a greater threat to America -- terrorism or this fiscal crisis that you're talking about?

MR. WALKER: Terrorism is more of a physical threat. Maslow's hierarchy of needs, the most fundamental need is self-preservation. Self-preservation deals with things like homeland security, national security, public safety on the streets, et cetera. So that's the most immediate, the most personal threat.

The largest threat to the republic is our fiscal irresponsibility and other factors that, the good news is, we can solve these problems.

MR. ZREMSKI: Democrats running for president are pushing national health care plans that in some cases could make younger people eligible to buy into Medicare. How concerned are you about the potential fiscal impact of an expanded federal role in health care?

MR. WALKER: Well, first, I honestly believe that the largest single domestic policy challenge that we face is the health care challenge, and that we're ultimately going to have to reform our entire health care system in installments around four basic objectives.

Number one, moving towards universal access to basic and essential health care services. I won't define that right now, but there's lots on the GAO website. Secondly, a cap on what the federal government will spend on health care every year. Otherwise, it could bankrupt the country.

Number three, adoption of universal, evidence-based national practice standards to improve consistency, enhance quality, reduce cost and dramatically reduce litigation risk. And number four, to increase personal responsibility and accountability for an individual's own health and wellness.

Those four things, I think, are the touchstone of comprehensive health care reform.

The highest risk thing that you can do is expand entitlement programs, and guess what? That's what Congress did in 2003 in passing the Medicare prescription drug benefit. I don't mean that we shouldn't have some form of prescription drugs as part of Medicare, but not as a layering on subsidized benefit irrespective of need. We dug the hole deeper \$8 trillion. By the way, the unfunded obligation for Social Security is less than \$8 trillion.

MR. ZREMSKI: Some of what you talk about regarding health care involves factors in the system where there are inefficiencies. Could you speak to that and talk about how those inefficiencies could be corrected and what that could pay for?

MR. WALKER: Well, I will say that I think for any system to work -- a tax system, a health care system, a corporate governance system,

you fill in the blank -- and here we're talking health care -- you've got to have three things aligned in order to -- for it to be successful and sustainable over time. Number one, incentives for people to do the right thing, and that doesn't necessarily mean tax incentives. Number two, transparency to provide reasonable assurance they will do the right thing because somebody's looking, and that somebody should be the public, not just the government. And number three, accountability if people do the wrong thing.

In health care we're zero for three. In baseball that's called a strike out. No wonder we have a problem. So we have to work on each of those three elements, I think, potentially moving towards that four-prong approach.

MR. ZREMSKI: The U.S. is spending billions of dollars on Depression-era crop subsidies. Isn't it time for this boondoggle to end?

MR. WALKER: The Senate voted last week by majority vote but not with an adequate number of votes under a special rule to try to limit subsidies, agricultural subsidies, and my personal view is this is one of the areas where Congress needs to look at for more targeting. There needs to be more targeting of federal subsidies and more federal activities both on the spending side as well as the tax side in order for us to be able to get on a more prudent and sustainable path.

MR. ZREMSKI: Where does transportation spending fit into the big picture, particularly the highway bill, the most recent having been criticized as being both too much and too little for America?

MR. WALKER: It's probably too little by some for today who would benefit and too much for our kids and grandkids who are expected to pay the bill with compound interest. It depends on how you look at it.

Look, you know, I think that one of the things that we're picking as part of our congressional earmark study that will be coming out next month is that we've picked several federal programs just to show how they handle earmarks, and one of which is in the Transportation Department -- if I recall, it's surface transportation -- to be able to show how this works. And I think that it will be illuminating, and people will want to take close look at that.

MR. ZREMSKI: Should federal taxes be raised now to compensate for all the problems that you're talking about in the future?

MR. WALKER: Nobody likes tax increases, including me. The American people are very concerned about sending additional money to Washington right now for good reason, because they're not sure that it would be used prudently and wisely. All the budget controls have expired, and we've lost control largely since they expired.

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Think about it. If you were an employer and you're doing the same thing the federal government's doing, you'd go to jail. If you took your employees money, spent it on something else, gave back a corporate bond and said, don't worry, it'll be there when it's time for you to retire, you'd go to jail.

So the issue is, we need to reform Social Security, because the surplus starts to decline in 2009. It goes negative. We have negative cash flow in 2017, and because it's the easy one.

We can reform Social Security and exceed the expectation of every generation of Americans. But to do that, it means employing a bipartisan process involving all the key stakeholders. It means protecting people who are at retirement or nearing retirement, making progressively greater changes the younger you are, and giving people time to plan in phasing this in.

It can be done in five minutes, in a way that would exceed the expectation of every generation. But the policy is important. But the process is of critical importance to be successful and process was the problem last time.

MR. ZREMSKI: Elaborate on that. Just tell us a little bit more about what happened in 2005 and why the Bush administration --

MR. WALKER: Well, first, the president deserves credit for recognizing that Social Security is a large and growing problem. It grows with the passage of time, and it's prudent to solve the problem sooner rather than later. He definitely deserves credit. He spent some political capital trying to do something. He and/or the vice president went to 60 different events. Administration officials went to about 200 different events within a fairly short period of time, so he deserves credit for that.

Here's the problem. In my opinion, the process was flawed. First, the president appointed a commission that had to pass a litmus test to support individual accounts before you could get appointed to the commission. That undercut the credibility of the commission, because there were people that rightly or wrongly didn't support individual accounts and therefore they ignored their recommendations.

There was never a specific proposal put forward or endorsed by the administration. The events that were held around the country were

not open events. Not everybody could come. They were screened

events. And so for a number of reasons, the process didn't have the features that you needed for success.

In addition, there weren't any prominent Democrats who were willing to be part of this process. Now, that's a double-edged sword. You know, I'm not saying that people weren't -- they didn't try to recruit any. But in the end, nobody was willing to step forward and do that. And for those and other reasons, after 200 public events, public support for reform was actually less than before reform. So we got to go about it a different way.

MR. ZREMSKI: Which is more urgent, the problem facing Medicare, the problem facing Social Security? Or should they be addressed together?

MR. WALKER: The problem facing Medicare is much more urgent but it is much more difficult to solve. I think we need to take the layup first. The layup is Social Security. It's a layup.

Secondly I think we do need to do round one of health care reform, which includes Medicare. We need to do round one of tax reform, which includes AMT, not only AMT. We need to deal with the budget controls.

But you know, Social Security, as I said, is easy to solve, in ways that exceed the expectations of every generation. Medicare is much tougher choices. It's 34 trillion versus Social Security's 6.8 trillion.

Medicare's a subset of a much broader health care challenge. We're going to need to do that in installments, but in doing it, we need to have a framework for what the end game is. We need to understand what do we ultimately want to make sure that our steps are consistent with ultimately where we want to achieve. And quite frankly, we're not there yet. We haven't had that national discussion and debate to say where do we want to end up in a way that meets broad-based societal needs rather than unlimited individual wants that's affordable and sustainable over time.

MR. ZREMSKI: With the elections looming, in your opinion, how many of the presidential candidates share your views about the need to fix entitlement spending?

MR. WALKER: Not enough. (Laughter.)

MR. ZREMSKI: Which presidential candidates are dealing with this issue responsibly, and which are not? Name names. (Laughter.)

MR. WALKER: I don't endorse presidential candidates.

MR. ZREMSKI: Will you be voting? (Laughter.)

MR. WALKER: Yes.

MR. ZREMSKI: Are you satisfied with the level of dialogue in the

campaign so far on these issues?

MR. WALKER: No, and let me comment on that. A number of excellent questions. I did not expect, nor did my colleagues on the Fiscal Wake-Up Tour expect that fiscal responsibility and intergenerational equity would be one of the top priorities in the primary campaigns. There are other issues that more acute. Iraq, immigration, health care, homeland security, et cetera, all right? It is critically important, however, that it be a major issue in the general election campaign, for the reasons that I've talked about.

Now, I take some comfort in the fact that in the last presidential debate that was held, the last two that were held in Iowa, the first question -- and in fact, more than one question -- that was asked dealt with fiscal issues. And the editor of the Des Moines Register said that the number-one issue that Iowans wanted to hear more about, that they were not hearing from the presidential candidates, was the fiscal issue. And believe me, the three trips by the Fiscal Wake-Up Tour to Iowa didn't hurt in that regard.

MR. ZREMSKI: State and local governments face the same demographic destiny as the federal government. Are they any better prepared to deal with these fiscal problems than the feds are?

MR. WALKER: Well, they're better prepared to be more fiscally responsible because all but one state, it's my understanding, has a constitutional requirement dealing with a balanced budget. In addition to that, both the states and the localities end up having publicly rated debt that if they don't -- if they're not prudent with regard to their fiscal posture, their debt rating goes down, their cost of capital goes up and that obviously is the squeeze. The U.S. government is presumed to have the safest credit rating for debt for a number of years, but two years ago, S&P said that we were headed for junk bond status within 20 -- by 2020 unless we mended our ways and started dealing with our large and growing long-range problem.

So I think the state and local governments are more attuned to the need for fiscal responsibility. They have certain requirements. But keep in mind one thing. Bad news flows downhill. So when the crunch comes for the federal government, it will affect state and local governments. It will affect families. And those states and local governments that assume that federal revenue sharing is going to be a straight line as to what it's been in the past have another think coming.

MR. ZREMSKI: Younger people probably will be facing a very difficult and different Social Security system, a very different Medicare system.

If you were 45 today or if you were 25 today, how would you personally prepare for the changes that are likely to come?

MR. WALKER: You need to recognize the reality, that the younger you are, the more personal responsibility you're likely to have to assume for your own economic security and retirement. Social Security will be there; some form of Medicare program will be there. But

Social Security will be reformed, less dramatically than Medicare, but the bottom line is, is you will have to assume more personal responsibility for your own economic security and retirement. And if you want to retire at a relatively early age, it means you need to plan, save, invest and preserve your savings for retirement.

We have four deficits in America: a budget deficit, a savings deficit, a balance of payments deficit and a leadership deficit. Americans are great at spending, but most Americans are lousy savers. Get -- have the miracle of compounding start working for you, start saving and investing as soon as possible.

MR. ZREMSKI: We're almost out of time, but before I ask the last question, I have a couple of other important matters to take care of.

First of all, let me remind our members of our future speakers. Tomorrow, December 18th, Morgan Freeman, the actor and the founder of the Grenada Relief Fund, will be here. On Wednesday, the 19th, Michael Leavitt, the secretary of the U.S. Department of Health and Human Services. On January 7th, Nancy Nord, the acting director of the U.S. Consumer Product Safety Commission.

Next, we have some traditions here at the National Press Club, including the presentation of our plaque. (Applause.) And because it sounds like the federal government can use every tin cup it can get -- (laughter) -- we have the National Press Club mug.

MR. WALKER: Thank you.

MR. ZREMSKI: Our last question. You mentioned media coverage, and how it may not be as good as it can be. How can it be better on these fiscal issues, and how can we make these stories not seem dry and boring to our readers or our viewers?

MR. WALKER: Look, I think whether you're print media, whether you're radio or television, that you need to spend 95 percent of your time focusing on what your readership, viewership, listenership cares

about today, but you need to spend 5 percent of your time on what they need to know that will help create a better tomorrow.

I think you also have to convert these big numbers into terms that people can relate to. The percentage of average household income. How much per person. How much per family. You need to help them understand what does it mean to how much more in taxes they're going to pay if we don't end up making reforms. So try to convert it to ways that people can understand.

Let me give a plug. There is a new commercial documentary coming out, as I mentioned. It has been accepted for the Sundance Film Festival, one of only 16 out of over 900 entries. And I hope that that will end up garnering quite a bit of attention. But the press, the Fourth Estate, is hugely important and we need you to do all you can.

Thank you. (Applause.)

MR. ZREMSKI: Thank you. Thank you, Mr. Walker.

I'd like to thank you all for coming today. I'd also like to thank National Press Club staff members Melinda Cooke, Pat Nelson, Jo Anne Booze and Howard Rothman for organizing today's lunch. Also thanks to the NPC Library for its research.

The video archive of today's luncheon is provided by the National Press Club Broadcast Operations Center. Press Club members can also access transcripts of our luncheons at our website, www.press.org, and non-members may purchase transcripts, audio and videotapes by calling 1-888-343-1940. For more information about joining the Press Club, you can contact us at 202-662-7511.

Thank you. We're adjourned.

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