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

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# **Transforming Government to Meet the Demands of the 21st Century**

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and the Chicago Federal Executive Board  
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Thank you, Mr Valiulis, for that kind introduction.

I'm sure I don't need to tell any of you that the world has changed significantly in the past 20 years. But the truth is, we're going to see even greater changes in the next 20 or 30 years. To avoid irrelevancy, businesses, nonprofit entities, and federal agencies will all need to adapt to this accelerating pace of change. Stated differently, we can't just be concerned with today; we need to focus on the future.

To capitalize on our opportunities and minimize related risks, all organizations must be mindful of the big picture and the long view. Organizations that endure tend to periodically rethink their missions and operations. World-class organizations understand that innovation requires change. One must change in order to continuously improve. The simple truth is an organization that stands still today is going to get passed by and, ultimately, it may not survive.

It's useful to remember at the end of the 19th century, the original Dow Jones Industrial Average consisted of 12 stocks. These were all powerful companies, the leaders in their fields. Names like National Lead, U.S. Rubber, and Tennessee Coal and Iron were the Microsofts and Wal-Marts of their day. It's sobering to realize only 1 of the original 12 Dow Jones companies survives today, and that's GE. The rest couldn't adapt to changing conditions and either merged with competitors or went out of business.

Throughout history, many great nations have also failed to survive. I should point out that the longest-standing republic and the major superpower of its day no longer exists, and that's the Roman Republic. More on the Roman Republic later.

This morning, I'm going to focus on the long-term challenges facing our nation and the federal government, though many of these issues are relevant to other sectors of society. I'm going to talk about the need for federal agencies to adopt a long-term perspective and transform their organizations and operations to better meet the needs of today and tomorrow.

The Federal Executive Boards (FEB) could be an important part of that transformation effort. As GAO's own work has shown, FEBs are uniquely positioned to bring government agencies together to work on common challenges. Increasingly, government is being called upon to address issues that require federal agencies to work closely together—responding to natural or manmade disasters, for example. And increasingly, the federal government has to work closely with states and communities, and with the private and not-for-profit sectors to meet these challenges. Because FEBs bring together all these players in your communities, you can provide linkages that the rest of government is going to have to work hard to create.

I'm also going to talk about the transformation efforts at my agency, the U.S. Government Accountability Office (GAO). GAO is in the vanguard of adapting innovative approaches and best

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practices. And many of our efforts are, in fact, transferable to other organizations inside and outside of government.

At the start of the 21st century, our country faces a range of sustainability challenges: fiscal, health care, energy, education, the environment, Iraq, aging infrastructure, and immigration policy, to name a few. These challenges are complex and of critical importance.

Some younger people here today may have no first-hand memory of the Cold War or the Iron Curtain. Your world has been defined by more recent developments, such as the invention of the microcomputer, the spread of the AIDS virus, and the mapping of the human genome. The challenge before us is to maintain a government that is effective and relevant to your generation and to future generations.

Unfortunately, our government's track record in adapting to new conditions and meeting new challenges isn't very good. Much of the federal government remains overly bureaucratic, myopic, narrowly focused, and based on the past. There's a tendency to cling to outmoded organizational structures and strategies.

Many agencies have been slow to adopt best practices. While a few agencies have begun to rethink their missions and operations, many federal policies, programs, processes, and procedures are hopelessly out of date. Furthermore, all too often, it takes an immediate crisis for government to act. After all, history has shown that Washington is a lag indicator!

Efficient and effective government matters. Hurricanes Katrina and Rita brought that point home in a painful way. The damage these storms inflicted on the Gulf Coast put all levels of government to the test. While a few agencies, like the Coast Guard, did a great job, many agencies, particularly the Federal Emergency Management Agency (FEMA), fell far short of expectations. Public confidence in the ability of government to meet basic needs was severely shaken—and understandably so. If our government can't handle known threats like natural disasters, it's only fair to wonder what other public services may be at risk.

Transforming government and aligning it with modern needs is even more urgent because of our nation's large and growing fiscal imbalance. Simply stated, America is on a path toward an explosion of debt. And that indebtedness threatens our country's, our children's, and our grandchildren's futures. With the looming retirement of the baby boomers, spiraling health care costs, plummeting savings rates, and increasing reliance on foreign lenders, we face unprecedented fiscal risks.

Long-range simulations from my agency are chilling. If we continue as we have, policy makers will eventually have to raise taxes dramatically and/or slash government services the American

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people depend on and take for granted. Just pick a program—student loans, the interstate highway system, national parks, federal law enforcement, and even our armed forces.

Lately, I've been speaking out publicly about our nation's worsening financial condition. Beginning in 2005, I started going on the road with a broad-based coalition that includes representatives from the Concord Coalition, the Brookings Institution, and the Heritage Foundation. We're called the "Fiscal Wake-Up Tour" and so far we've made appearances in 25 cities and 21 states across the country.

Perhaps you saw the profile that *60 Minutes* did of us back in the spring, which was repeated this summer. Or perhaps you saw me on *The Colbert Report* or heard me on *The Diane Rehm Show*.

Importantly, our nation's financial problems are undermining our flexibility to address a range of emerging challenges. For example, America's population is aging. Tens of millions of baby boomers, and I'm one of them, are on the brink of retirement. Many of these retirees will live far longer than their parents and grandparents. The problem is that in the coming decades, there simply aren't going to be enough full-time workers to promote strong economic growth or to sustain existing entitlement programs. Like most industrialized nations, the United States will have fewer full-time workers paying taxes and contributing to federal social insurance programs. At the same time, growing numbers of retirees will be claiming their Social Security, Medicare, and Medicaid benefits.

Another ominous trend: American companies are cutting back the retirement benefits they're offering to workers. This means all of us are going to have to plan better, save more, invest more wisely, and resist the temptation to spend those funds before we retire.

Beyond fiscal imbalances, the United States confronts a range of other challenges. Globalization is at the top of that list. Markets, technologies, and businesses in various countries and in various parts of the world are increasingly linked, and communication across continents and oceans is now instantaneous. This new reality was made clear by the recent drop in stock markets around the world.

Clearly, U.S. consumers have reaped many benefits from globalization. From clothing to computers, you and I can buy a range of foreign-made goods that are cheaper than ever. But there's a catch. In many cases, lower prices have been accompanied by losses in U.S. jobs.

Globalization is also having an impact in areas like the environment and public health. The truth is that air and water pollution don't stop at the border. And with today's international air travel, infectious diseases can spread from one continent to another literally overnight.

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With the end of the Cold War, we face new security threats, including transnational terrorist networks and rogue nations armed with weapons of mass destruction. September 11 brought this reality home in a painful way. Stronger multinational partnerships will be essential to counter these diverse and diffuse threats.

Challenges also come from technology. In the past 100 years, but especially the last 25 years, spectacular advances in technology have transformed everything from how we do business to how we communicate, to how we treat and cure diseases. Our society has moved from the industrial age to the knowledge age, where specialized knowledge and skills are two keys to success. Unfortunately, the United States—which gave the world Benjamin Franklin, Thomas Edison, and Bill Gates—now lags behind many other developed nations on high school math and science test scores.

In many respects, our quality of life has never been better. We're living longer, we're better educated, and we're more likely to own our own homes. But as many of you already know from your own families, we also face a range of quality-of-life concerns. These include poor public schools, gridlocked city streets, inadequate health care coverage, and the stresses of caring for aging parents and possibly our own children at the same time.

We also face a range of serious challenges when it comes to health care, education, energy, the environment, foreign policy, immigration, infrastructure, Iraq, and other issues. Current U.S. policy in all these key areas is on an unsustainable path over the long term. Tough choices must be made, and the sooner the better.

Our very prosperity is placing greater demands on our physical infrastructure. Billions of dollars will be needed to modernize everything from highways and airports to water and sewage systems. The recent bridge collapse in Minneapolis was a sobering wake-up call. The demands for such new investment will increasingly compete with other national priorities.

To preserve its ability to address these and other emerging trends, America needs to return to fiscal discipline and focus on the future. At both ends of Pennsylvania Avenue and on both sides of the political aisle, we need leaders who will face these facts, speak the truth, partner for progress, and make tough choices. We also need leadership from our state capitols and city halls and from businesses, colleges and universities, charities, think tanks, the military, and the media. So far, there have been too few calls for fundamental change and shared sacrifice.

## **A Way Forward**

By now, you're probably wondering how we can turn things around. By nature, I'm an optimist and a person of action. I don't believe in simply stating a problem. I also think it's important to state a possible way forward.

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Obviously, a return to fiscal discipline is essential. We need to impose meaningful budget controls on both the tax and the spending sides of the ledger. Members of Congress also need more explicit information on the long-term costs of spending and tax bills—*before* they vote on them. For example, the Medicare prescription drug bill came with an \$8 trillion price tag. But that fact wasn't disclosed until after the bill had been passed and signed into law.

But if our government is to successfully address the range of challenges I mentioned earlier, government transformation is also essential. Every federal agency and every federal program is going to have to rethink its missions and operations.

The problem is that much of government today is on autopilot, based on social conditions and spending priorities that date back decades. I'm talking about when Harry Truman, Dwight Eisenhower, and John Kennedy were in the White House. The fact is, the Cold War is over, the baby boomers are about to retire, and globalization is affecting everything from foreign policy to international trade to public health.

Unfortunately, once federal programs or agencies are created, the tendency is to fund them in perpetuity. This is what I mean when I say our government is on autopilot. Washington rarely seems to question the wisdom of its existing commitments. Instead, it simply adds new programs and initiatives on top of the old ones. As President Ronald Reagan once quipped, a government program is "the nearest thing to eternal life we'll ever see on this earth." This is a key reason our government has grown so large and so expensive.

American families regularly clean out their closets and attics. Surplus items are either sold at yard sales or given to charity. Unfortunately, when it comes to federal programs and policies, our government has never undertaken an equivalent spring cleaning.

We need nothing less than a top-to-bottom review of federal programs, policies, and operations. Congress and the President need to decide which of these activities remain priorities, which should be overhauled, and which have simply outlived their usefulness.

Entitlement reform is especially urgent. Unless we reform Social Security, Medicare, and Medicaid, these programs will eventually crowd out all other federal spending. Otherwise, by 2040 our government could be doing little more than sending out Social Security checks and paying interest on our massive national debt.

GAO has been doing its best to bring attention to the problem. To get policy makers thinking, we published an unprecedented report that asks more than 200 probing questions about mandatory and discretionary spending, federal regulations, tax policy, and agency operations. The report was published in February 2005 and is called "21st Century Challenges: Reexamining the Base of

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the Federal Government.” I recommend it to everyone here today. The report is available free on GAO’s Web site at [www.gao.gov](http://www.gao.gov).

Last November, I sent a letter to congressional leaders suggesting 36 areas for closer oversight. We also recently updated GAO’s list of government areas at high risk of waste, fraud, abuse, and mismanagement.

Our hope is that policy makers and the public will think more strategically about where we are, where we’re headed, and what we need to do to get on a more prudent and sustainable path. Fortunately, concern seems to be growing. Members of Congress on both sides of the aisle have started asking some pointed questions about where we are and where we’re headed. Even the Administration now acknowledges that deficits matter. In recent statements, the President has pledged not just to balance the budget but also to start tackling our large and growing entitlement promises.

The American people need to become more informed and involved when it comes to the problems facing our country. They also need to become more vocal in demanding change. Younger Americans like you need to speak up because you and your children will ultimately pay the price and bear the burden if today’s leaders fail to act.

The good news is younger Americans turned out in large numbers for November’s midterm election. From Iraq to immigration, from ethical lapses to fiscal irresponsibility, the public’s dissatisfaction with the status quo was abundantly clear. But looking toward 2008, it’s essential that the public and the press hold candidates of both parties accountable for their position on our large and growing fiscal challenge.

Transforming government won’t happen overnight. Success depends on sustained leadership that transcends the efforts of a single person or a single administration. Public officials will also need to partner with other federal agencies, businesses, universities, and nonprofit groups, both domestically and internationally. The bottom line: We can succeed with enlightened and sustained leadership. And unlike with global warming, we can solve our fiscal challenge on our own! Our future in this area is in our hands if we have the courage to act.

## **The New GAO**

I’d like to talk now about my agency, GAO, and our efforts to modernize our organizational structure and work processes. When I become Comptroller General nearly nine years ago, I made GAO’s own transformation a top priority. “Leading by example” became one of GAO’s main objectives. And ever since, we’ve been working hard to be number one and stay number one and show other government agencies how things can be done.

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I think it's important to clarify what GAO does and does not do. Many people think GAO keeps the government's books and records. That's actually the job of the Treasury Department, the Office of Management and Budget, and the chief financial officers at the various federal agencies. I should point out that we recently changed our name from the General Accounting Office to the Government Accountability Office to better reflect our current role and mission in government.

GAO is an independent agency in the legislative branch. We're sometimes called the "investigative arm of Congress" or the "congressional watchdog" because GAO helps Congress oversee the rest of government. We're in the business of helping government work better and holding it accountable to the American people. To this end, GAO provides Congress with oversight of agency operations, insight into ways to improve government services, and foresight about future challenges. Most GAO reports go beyond the question of whether federal money is being spent appropriately to ask whether federal programs and policies are meeting their objectives and the needs of society.

The scope of GAO's work today includes virtually everything the federal government is doing or thinking about doing anywhere in the world. You might be surprised to learn that GAO analysts have been in Iraq recently looking at everything from military logistics to contracting costs to our efforts to train and equip Iraqi security forces.

We started our transformation efforts by putting together a strategic plan. One of the most important qualities for any organization today is agility. Whether you're a Fortune 500 company or a federal agency, you need to be able to identify what's going on around you, decide what really matters, and act on those issues in a timely way. GAO's strategic plan is a road map that guides the agency's work. The strategic plan defines our mission, lays out the key trends and themes that GAO will focus on, and outlines the agency's goals and objectives. GAO issued its first strategic plan in the spring of 2000, and we've been updating it ever since to reflect changing congressional needs and national priorities.

GAO's own strategic goals are ambitious but straightforward. We seek to produce positive and measurable benefits for Congress and the American people. We try to meet the needs of our congressional clients. We want to help reinvent government so that it continues to meet the needs of its citizens. And finally, GAO aspires to become a model federal agency and a world-class professional services organization.

With the strategic plan in place, we reassessed our organizational structure and resource allocations. In 2001, we trimmed our organizational units from 35 to 13, reduced the number of field offices from 16 to 11, eliminated an entire management layer, redistributed resources, and encouraged internal teamwork and external partnerships.

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The strategic plan is also a touchstone for our budgeting and spending decisions. People, dollars, and technology are consistently allocated with an eye toward GAO's overall goals.

We've also changed how we keep score to focus on results. Achieving positive, measurable results has been central to GAO's transformation efforts. Since 2000, GAO has issued annual performance and accountability reports that inform Congress and the American people about GAO's accomplishments and its plans for the coming year. For example, in 2006 GAO's work produced a record \$51 billion in financial benefits. That's a \$105 return on every dollar invested in GAO.

In recent years, GAO has become a modern, multidisciplinary professional services organization with more than 3,200 employees, including economists, social scientists, engineers, attorneys, and accountants as well as specialists in areas from national security to Social Security. You name the profession, you can probably find it at GAO.

The simple truth is that effective government requires a first-rate workforce. We need civil servants who can develop innovative solutions to both old and new problems. We also need individuals in government who are committed to the greater good, who strive for continuous improvement, and are able to show others the way forward. We also need individuals who understand the concept of stewardship. By stewardship, I mean not just building on past accomplishments or generating positive results today but leaving things better off and better positioned for the future when you leave.

Today, the civil service is aging: Large numbers of federal executives and managers are expected to retire in the coming years. Many of them are part of the so-called JFK generation, which took to heart our 35th President's call to "ask not what your country can do for you—ask what you can do for your country." At the same time, too many agencies lack enough people with the right skills to carry out their missions.

Federal agencies are going to have to do a better job of attracting, rewarding, and retaining talent. Today, many federal personnel practices date back to the 1940s and 1950s. The General Schedule (GS) pay scale, which tends to reward time in grade rather than performance on the job, shows how outdated the government's pay and compensation systems have become.

In so many areas—recruiting, training and development, job classification, pay and benefits, and employee empowerment—the federal government lags behind other sectors. This is a serious problem given that, in many areas, the government is competing with these sectors for top talent. Moreover, despite the wave of federal retirements that we know are coming, few agencies have adequate succession plans in place.

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GAO is seeking to lead by example in this area as well, and we've completed a broad range of fundamental human capital reforms. These have included both legislative and administrative changes.

Today, GAO employees' pay and compensation are more directly tied the market and to getting results—measurable outcomes that further the agency's mission. Job responsibilities and pay ranges at GAO are now classified according to an employee's roles and responsibilities and market-based conditions. I'm pleased to say I believe GAO is the first federal agency to adopt such a market-based, skills-, knowledge-, and performance-oriented classification and pay system for its permanent employees on an agencywide basis.

We've also adopted a number of innovative practices, such as flexible work schedules and telecommuting, to help GAO employees better balance the demands of work and home. In addition, the agency recently launched an executive exchange program to help us tap talent outside of the federal government for short-term projects. GAO has also made it a priority to recruit aggressively at select colleges and universities. Thanks to these efforts, and the use of student loan repayment authorities and our first-rate training and development programs, GAO has been able to attract and retain a first-class workforce,.

We've also undertaken a number of employee empowerment initiatives. Among other things, GAO conducts annual electronic employee feedback surveys on key issues. We've also established employee suggestion and reward programs and an elected Employee Advisory Council to advise top management on the views and concerns of rank-and-file employees.

In my view, top management must be willing to tap into the ideas of rank-and-file federal employees. Obviously, the folks on the front lines often have the best sense of what's working, what needs to be fixed, and how things can be solved. A successful leader gathers the best available information from every level of his or her organization before arriving at a decision.

Listening and responding to employees' concerns and comments are particularly important during a time of change. At GAO, we want our employees to have input into the changes that are taking place and the direction GAO is headed.

This doesn't mean we stick our finger in the wind and bend to popular sentiment. As Harry Truman once asked, "How far would Moses have gone if he had taken a poll in Egypt?"

Not all of our human capital changes have been easy—or without controversy. Obviously, reforms that affect an employee's pay and job classification tend to be very controversial. This is particularly true in a workforce like GAO's, which is highly educated and, by training, highly skeptical.

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Even so, the overall results of GAO's many human capital initiatives have been improved performance, greater employee job satisfaction, and more effective use of GAO's resources. Feedback from inside and outside the agency has been overwhelmingly positive. In fact, the Partnership for Public Service recently ranked GAO second in its list of the best places to work in the federal government. Today, GAO is not only better equipped to tackle Congress' toughest assignments; GAO is also better positioned for the future.

GAO isn't perfect, and no agency can be. But GAO is proof that dramatic and fundamental human capital reform is both desirable and achievable in the federal government. In fact, many of our efforts are transferable and scalable. My hope is that other federal agencies, as well as entities outside of government, can learn from our experience and apply what's useful to their own circumstances.

### **A Call to Public Service**

As I mentioned earlier, government transformation won't happen overnight. Elected, appointed, and career officials will need to work together closely for a sustained period of time—perhaps a generation or longer. And politicians will need to focus more on what's right for our country rather than what's right for their party. It's going to take patience, persistence, perseverance, and even pain before we prevail in transforming government. But prevail we must.

At the same time, government transformation isn't possible without a first-rate federal workforce. In my view, whatever your career, everyone should consider giving at least a couple of years to public service. I also strongly believe we should consider some mandatory public service requirement for able-bodied Americans.

Public service can take several forms: military or civilian government service, faith-based or other charitable organizations, or in community and other public interest groups. Lots of jobs in various sectors, from nursing to teaching to social work, also provide wonderful opportunities to serve others.

As someone who has divided his career between government and the private sector, I can tell you that my experience at federal agencies has been challenging, enlightening, and rewarding. Before coming to GAO in 1998, I was a senior executive in several private sector firms, including Price Waterhouse and Arthur Andersen. I also served as a trustee of Social Security and Medicare, as an Assistant Secretary of Labor, and as head of the Pension Benefit Guaranty Corporation.

One person clearly can make a difference in today's world. My favorite 20th century president, Theodore Roosevelt, is proof of that. TR, as he's often called, was someone with character, conscience, and conviction.

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As our 26th and youngest president, he was an optimist who firmly believed in the potential of government to improve the life of every citizen. As a trustbuster, TR took on some of the nation's more powerful and ethically challenged corporate interests. And he won. As an environmentalist, TR left us with a legacy of great national parks like Yosemite. As an internationalist, he led peace talks to end the Russo-Japanese War. In fact, TR is the only American to have won both the Congressional Medal of Honor and the Nobel Peace Prize.

TR firmly believed that it was every American's responsibility to be active in our civic life, and so do I. Democracy is hard work but it's work worth doing. And that's really at the heart of my message this morning. How America looks in the future is largely up to us. "We the people" are ultimately responsible for what does or does not happen in Washington.

Other countries with similar challenges have already acted. The two best examples are Australia and New Zealand. Like the United States, they have aging populations. Unlike the United States, these two countries have stepped up to the plate and dealt with some of their serious long-term challenges. Among other steps, they've reformed their overburdened public pension and health care systems. The efforts by policy makers in Australia and New Zealand show it's politically possible to make difficult decisions that require short-term pain in the interest of long-term gain.

America is a great nation, probably the greatest in history. But if we want to keep America great, we have to recognize reality and make needed changes. As I mentioned earlier, there are striking similarities between America's current situation and that of another great power from the past: Rome. The Roman Empire lasted 1,000 years, but only about half that time as a republic. The Roman Republic fell for many reasons, but three reasons are worth remembering: declining moral values and political civility at home, an overconfident and overextended military in foreign lands, and fiscal irresponsibility by the central government. Sound familiar? In my view, it's time to learn from history and take steps to ensure the American Republic is the first to stand the test of time.

Please don't misunderstand my message today. Things are far from hopeless. Yes, it's going to take some difficult choices on a range of issues. But I'm convinced America will rise to the challenge, just as we did during World War II and other difficult times.

What's needed now is leadership. The kind of leadership that leads to meaningful and lasting change has to be bipartisan and broad-based. Character also counts. We need men and women with courage, integrity, and creativity. Leaders who can partner for progress and are committed to truly and properly discharging their stewardship responsibilities.

But leadership can't just come from Capitol Hill or the White House. Leadership also needs to come from Main Street.

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It's time for the three most powerful words in our Constitution—"We the people"—to come alive. As I said earlier, the American people are going to have to become better informed and involved as we head toward the 2008 elections. And the next President, whoever he or she may be, and whichever party he or she represents, should be prepared to use the bully pulpit of the Oval Office to push needed reforms. If these things happen, we have a real chance to turn things around and better position ourselves for the future.

My hope is when you leave here today, you'll spread the word among your friends and family about the challenges we face. By facing the facts and making sound policy choices, I'm confident we can fulfill our stewardship responsibilities to your generation and to future generation of Americans. As TR said, "fighting for the right [cause] is the noblest sport the world affords." I would encourage each of you to pick your cause, and do your best to make a real and lasting difference.

I appreciate your attention this afternoon, and I'd be happy to take any questions you might have.

