



Comeback America: The Nation's Fiscal Challenge and A Way Forward

Fairfield CONNexion
Connecticut Society of CPAs
Norwalk, CT
January 20, 2011

David M. Walker
Founder and CEO
The Comeback America Initiative
and
Former Comptroller General of the United States

Growth of Government

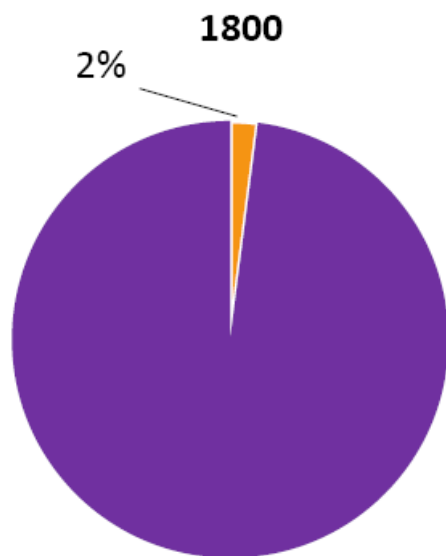


Peter G. Peterson
Foundation
Our America. Our Future.

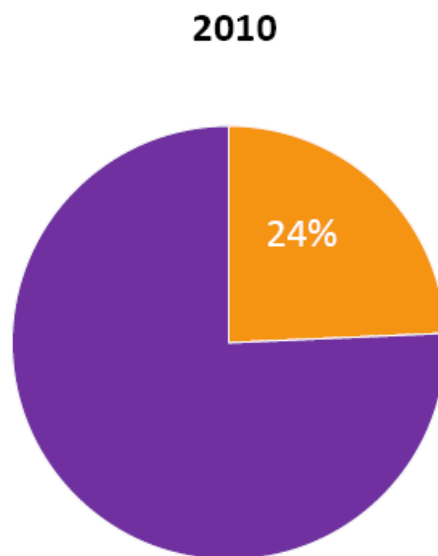
Total Federal Spending

(As Percentage of U.S. Economy)

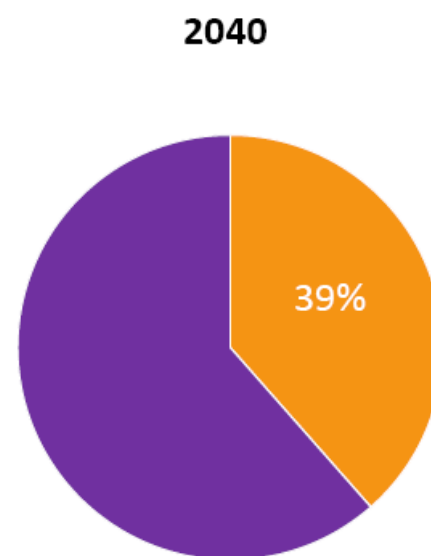
■ Total Spending



Size of the Total
Economy: \$8.8 Billion
(Constant 2009 Dollars)



Projected Size of the Total
Economy: \$14.4 Trillion
(Constant 2009 Dollars)



Projected Size of the Total
Economy: \$28.7 Trillion
(Constant 2009 Dollars)

SOURCES: Data from the Congressional Budget Office; *Long-Term Budget Outlook: June 2010*, alternative fiscal scenario. Data from *Historical Statistics of the United States*, Millennial Edition On Line, Cambridge 2006. Compiled by PGPF.

NOTE: The alternative fiscal scenario includes several changes to current law that are widely anticipated to occur (i.e. adjustments to Medicare payment rates).

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Changes in Spending

Composition of Federal Spending

(% of Total Spending)

■ Medicare and Medicaid

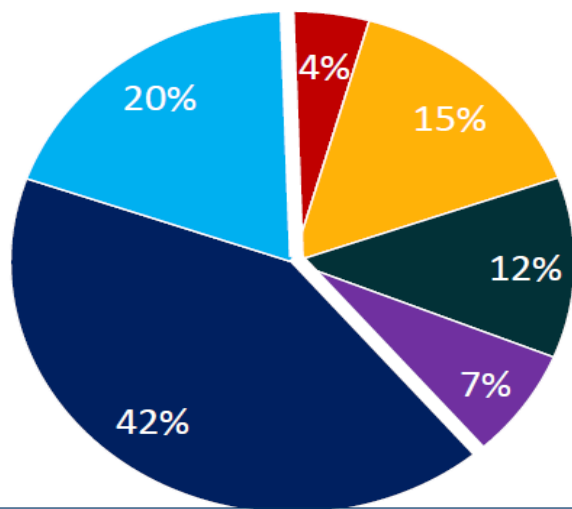
■ Social Security

■ Other Mandatory

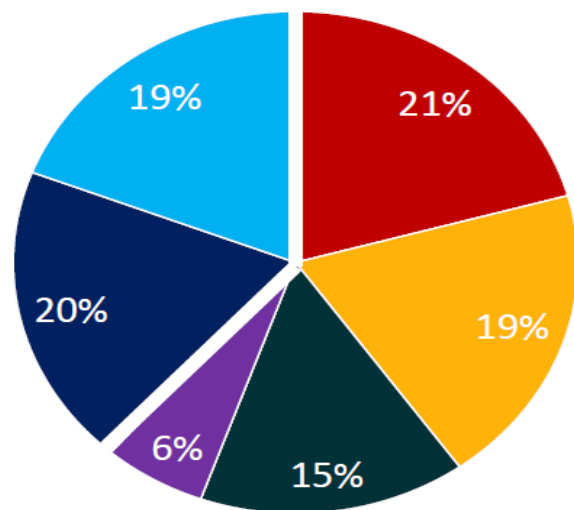
■ Net Interest

■ Defense

■ Other Discretionary



Total Spending 1970:
\$900 Billion (Constant 2009 Dollars)



Total Spending 2010 (estimated):
\$3.5 Trillion (Constant 2009 Dollars)

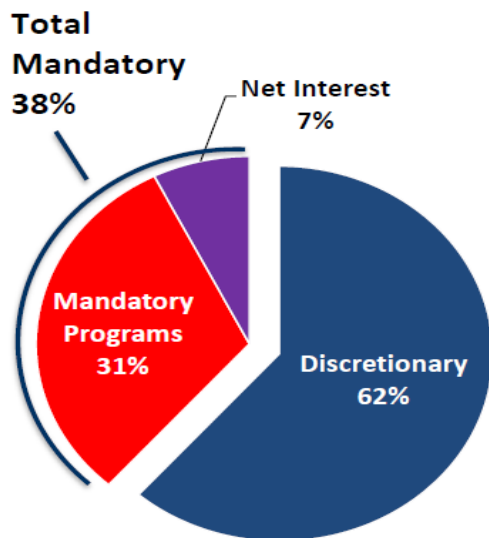
SOURCES: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget*, Historical Tables; and the Congressional Budget Office, *Preliminary Analysis of the President's Budget*: March 2010. Compiled by PGPF.

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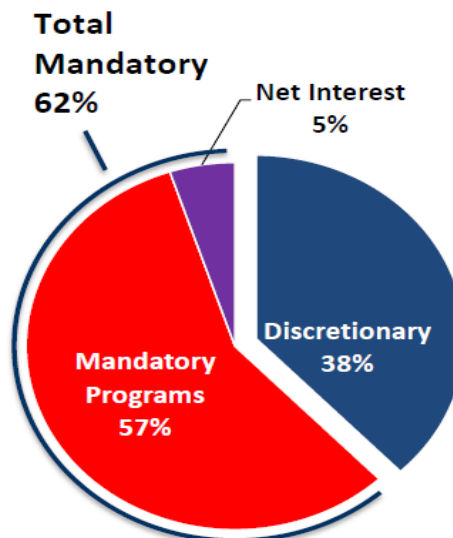
More on Autopilot



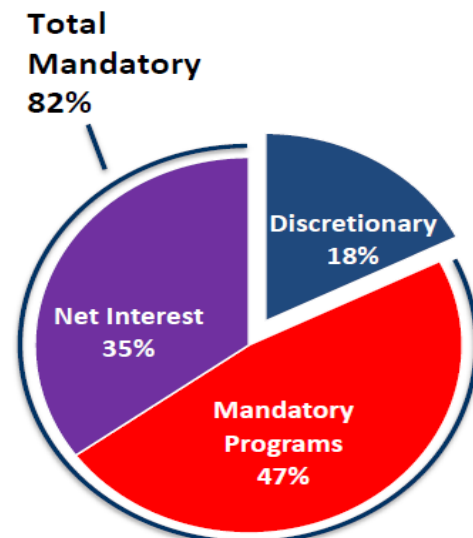
Mandatory programs and interest costs are taking over more and more of the federal budget, crowding out important discretionary programs



Total Spending 1970:
\$900 Billion



Total Spending 2010:
\$3.5 Trillion (est.)



Total Spending 2040:
\$12.3 Trillion (est.)

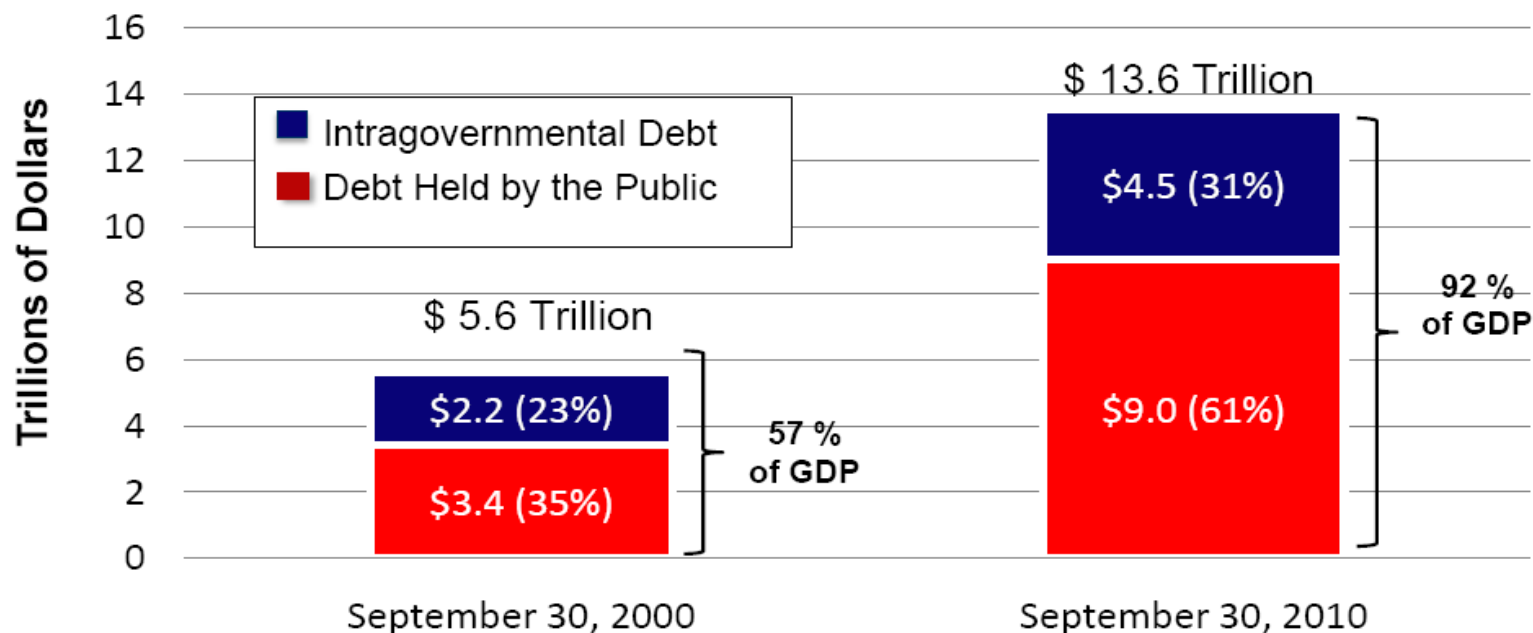
SOURCES: Data derived from the Office of Management and Budget, *FY 2011 Budget, Historical Tables*, February 2010; and the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook*, January 2010 Update, alternative simulation using Congressional Budget Office assumptions. Calculated by PGPF.

Notes: Data is in constant 2009 dollars. Mandatory programs include Social Security, Medicare, Medicaid and other entitlement programs.

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Federal Debt Burdens

The total debt includes debt held by the public (domestic and foreign investors) and debt the government owes to various government programs*



SOURCES: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget*; February 2010, Historical Tables; and the Department of Treasury, *Daily Treasury Statement* (September 30, 2010). Compiled by PGPF.

NOTE: Totals may not add due to rounding.

*Intragovernmental debt refers to Treasury securities held by federal trust funds (e.g., Social Security and Medicare) and other government accounts. Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

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Federal Financial Hole



The following table illustrates the U.S. government's explicit liabilities, commitments, and unfunded social insurance promises

In Trillions of Dollars		
	2000	2009
■ Explicit liabilities	\$6.9	\$14.1
■ Publicly held debt	3.4	7.6
■ Military & civilian pensions & retiree health	2.8	5.3
■ Other Major Fiscal Exposures	0.7	1.3
■ Commitments & contingencies	0.5	2.0
■ E.g., Pension Benefit Guaranty Corporation, undelivered orders		
■ Social insurance promises	13.0	45.8
■ Future Social Security benefits	3.8	7.7
■ Future Medicare benefits	9.2	38.2
■ Future Medicare Part A benefits	2.7	13.8
■ Future Medicare Part B benefits	6.5	17.2
■ Future Medicare Part D benefits	--	7.2
Total	\$20.4	\$61.9

SOURCE: Data from the Department of Treasury, *2009 Financial Report of the United States Government*. Compiled by PGPF.

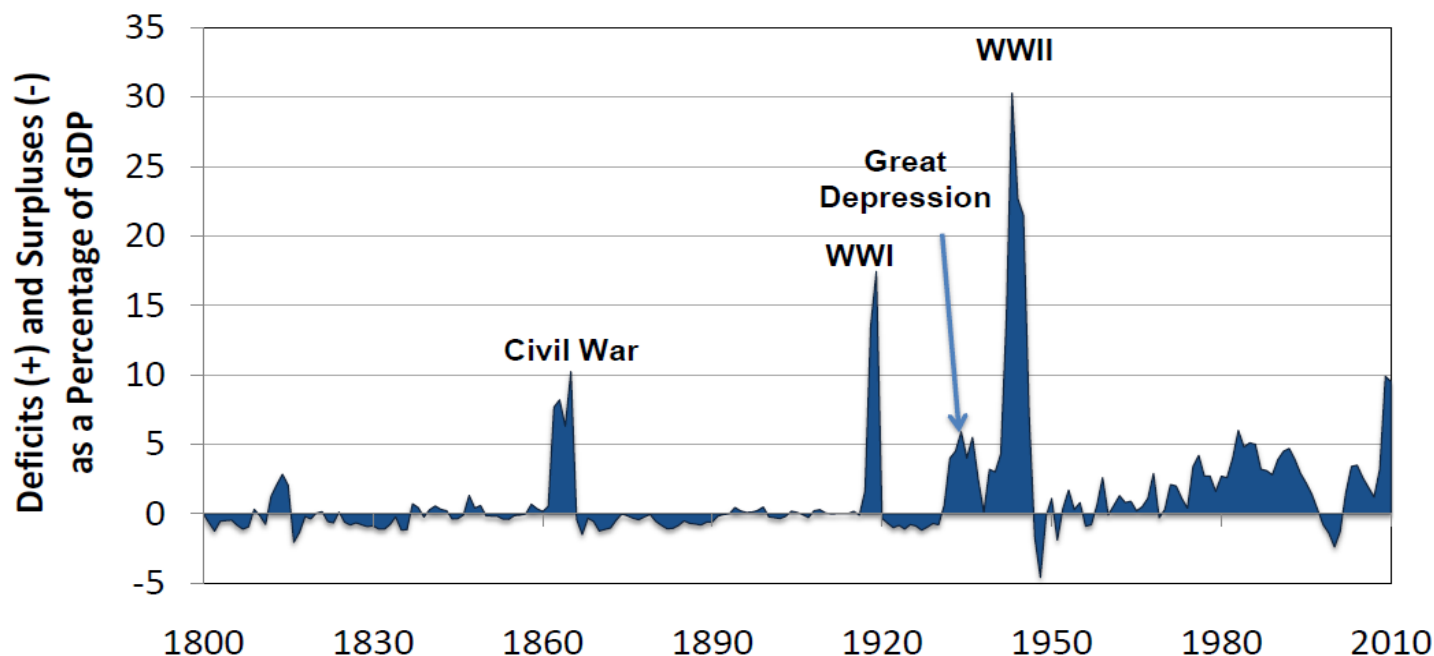
NOTE: Numbers may not add due to rounding. Estimates for Medicare and Social Security benefits are from the Social Security and Medicare Trustees reports, which are as of January 1, 2009 and show social insurance promises for the next 75 years. Future liabilities are discounted to present value based on a real interest rate of 2.9 percent and CPI growth of 2.8 percent. The totals do not include liabilities on the balance sheets of Fannie Mae, Freddie Mac, and the Federal Reserve. Assets of the U.S. government not included. Does not include civil service and military retirement funds, unemployment insurance, and debt held by other government accounts outside of Social Security and Medicare.

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Historical Deficit Levels



Prior to the Great Depression deficits were unusual in the U.S. Budget surpluses occurred in over two-thirds of the years between 1800 and 1930

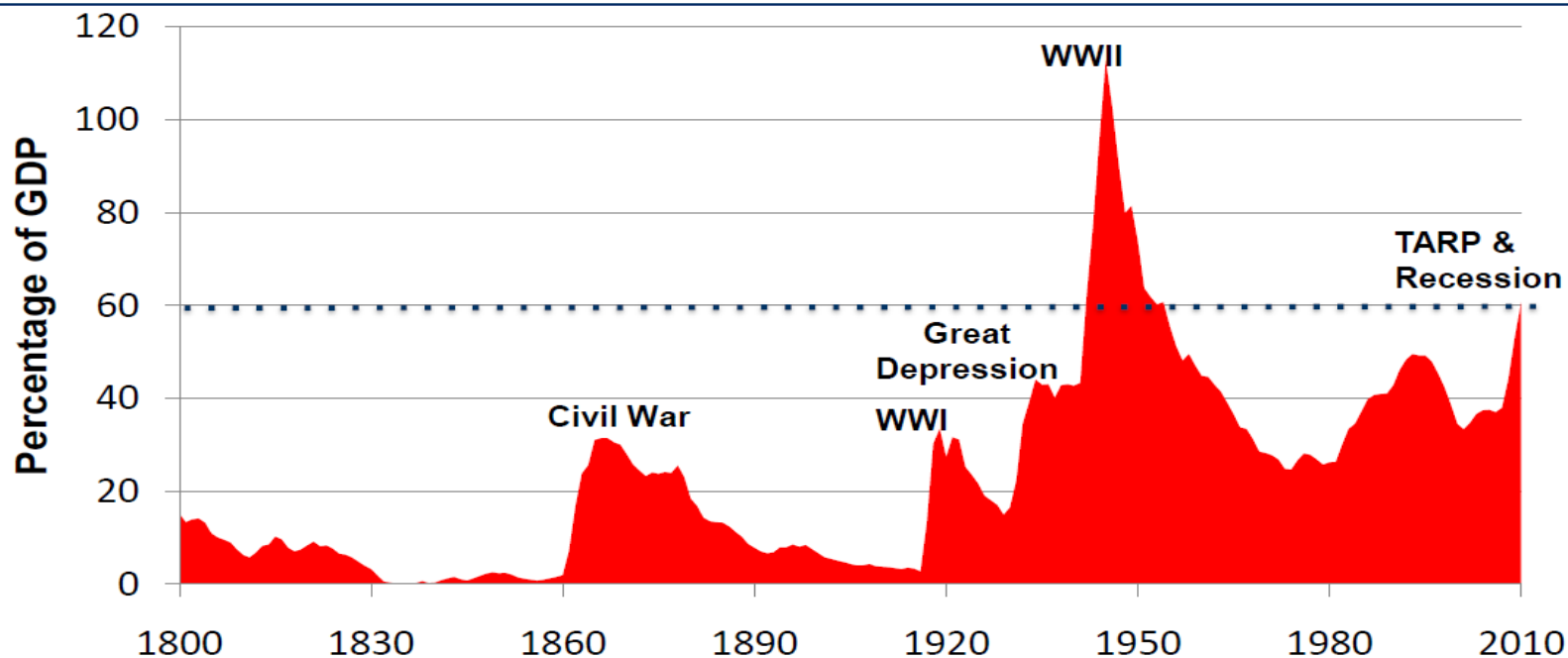


SOURCES: Data from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Historical Tables*, February 2010; the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions; and the *Historical Statistics of the United States*, Millennial Edition Online, Cambridge 2006. Compiled by PGPF.
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Historical Debt Burdens



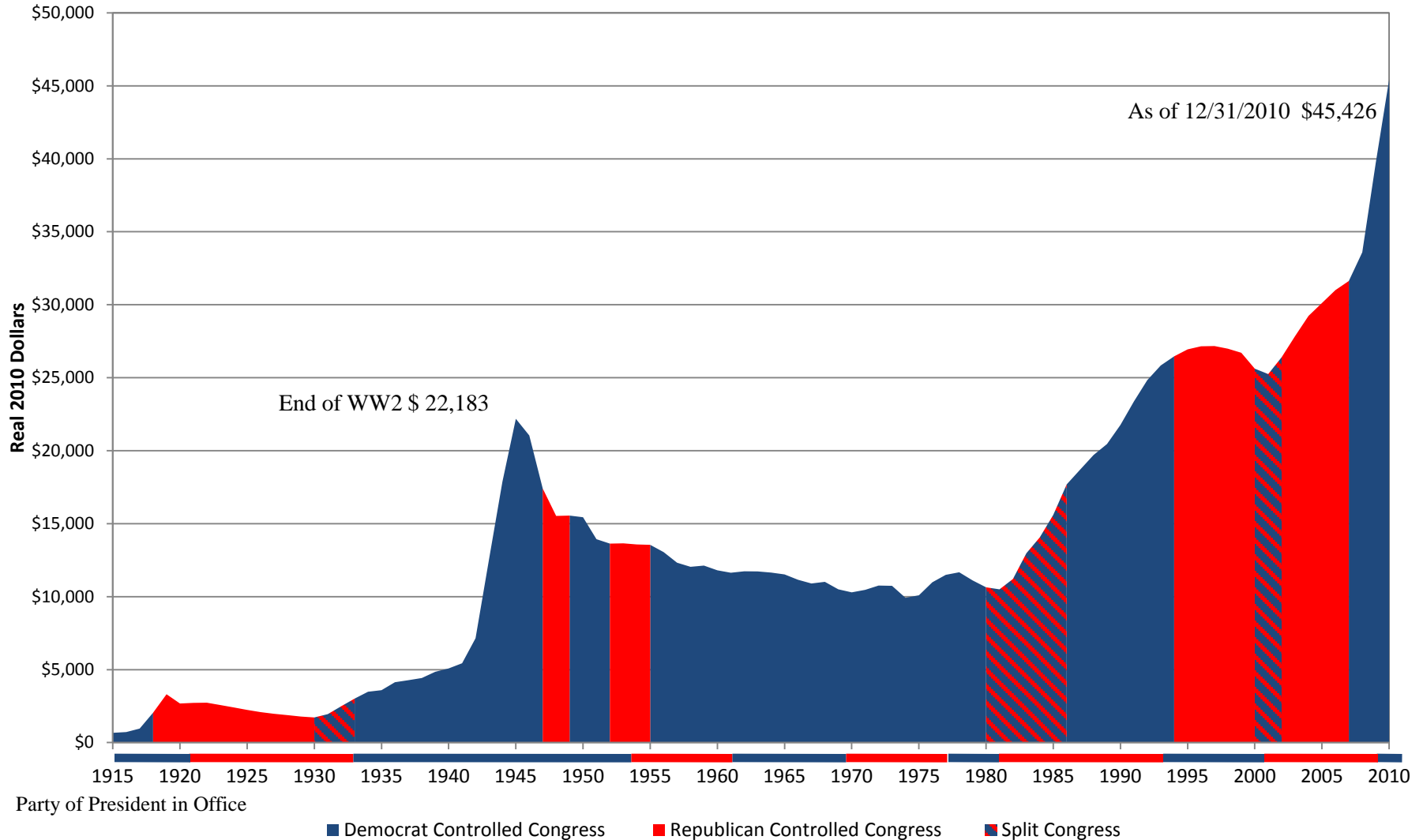
Since 1800, U.S. Debt Held by the Public has exceeded 60 percent of GDP (the maximum debt ceiling used by the European Monetary Union) only during World War II



SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*; the Government Accountability Office, *The Federal Government's Long-Term Fiscal Outlook: January 2010 Update*, alternative simulation using Congressional Budget Office assumptions. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.
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Federal Debt Per Capita & The Political Party in Power



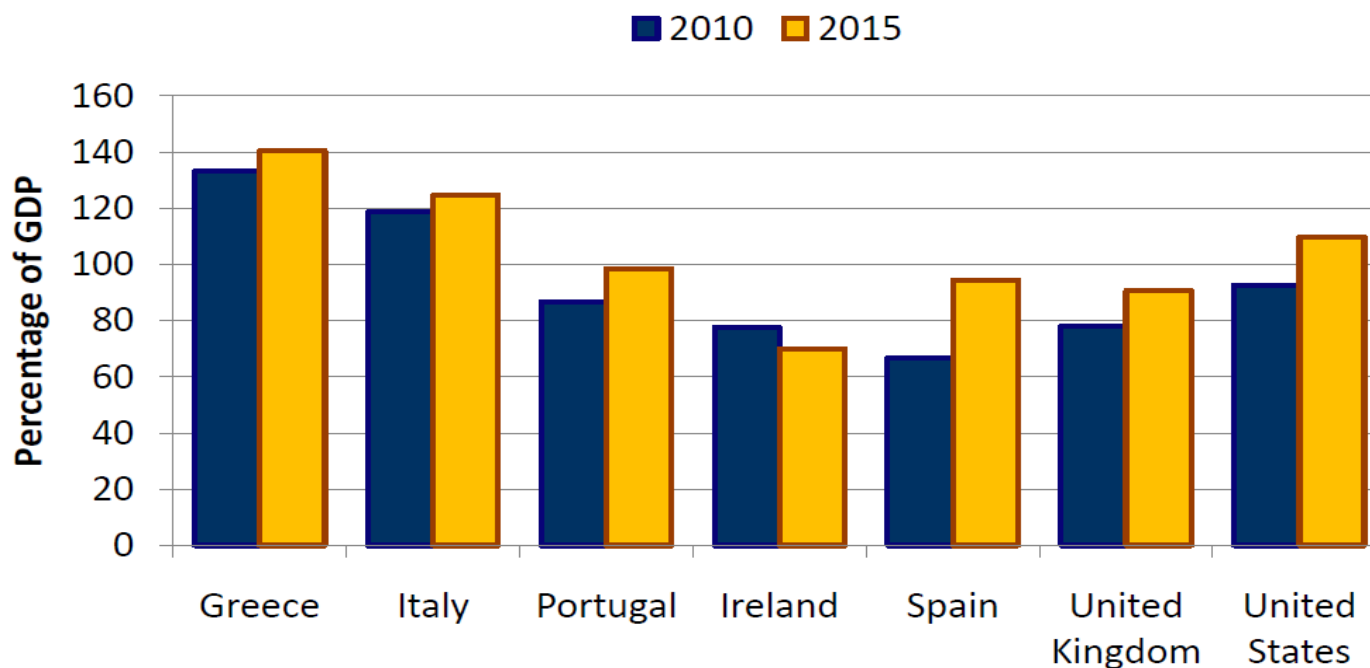
SOURCES: U.S. Census Bureau, U.S. Department of Treasury, U.S. Bureau of Labor Statistics, U.S. House, and U.S. Senate

NOTE: All amounts are adjusted for inflation and in 2010 Dollars. Federal Debt is the total public debt outstanding and intragovernmental holdings. Compiled by TCAII.

Comparative Debt Burdens



Total government debt in the U.S is higher than some of the most financially troubled countries in Europe

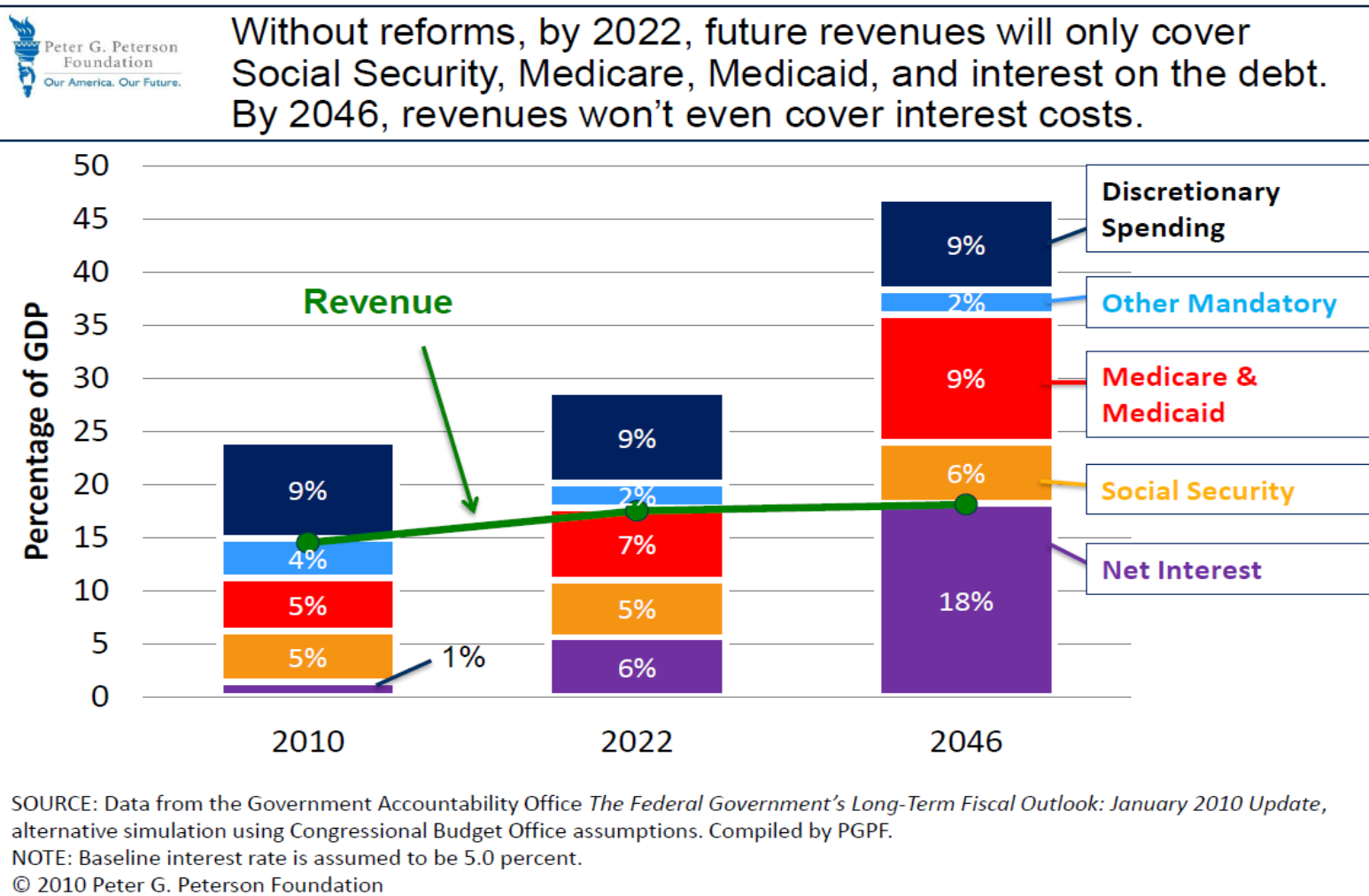


SOURCE: Data from the International Monetary Fund, *IMF Fiscal Monitor Series: Navigating the Fiscal Challenges Ahead*, May 14, 2010. Compiled by PGPF.

NOTE: Both 2010 and 2015 figures are estimates. Total Government debt (also referred to as general government gross debt) measures all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date in the future. This includes central, state and local government debt.

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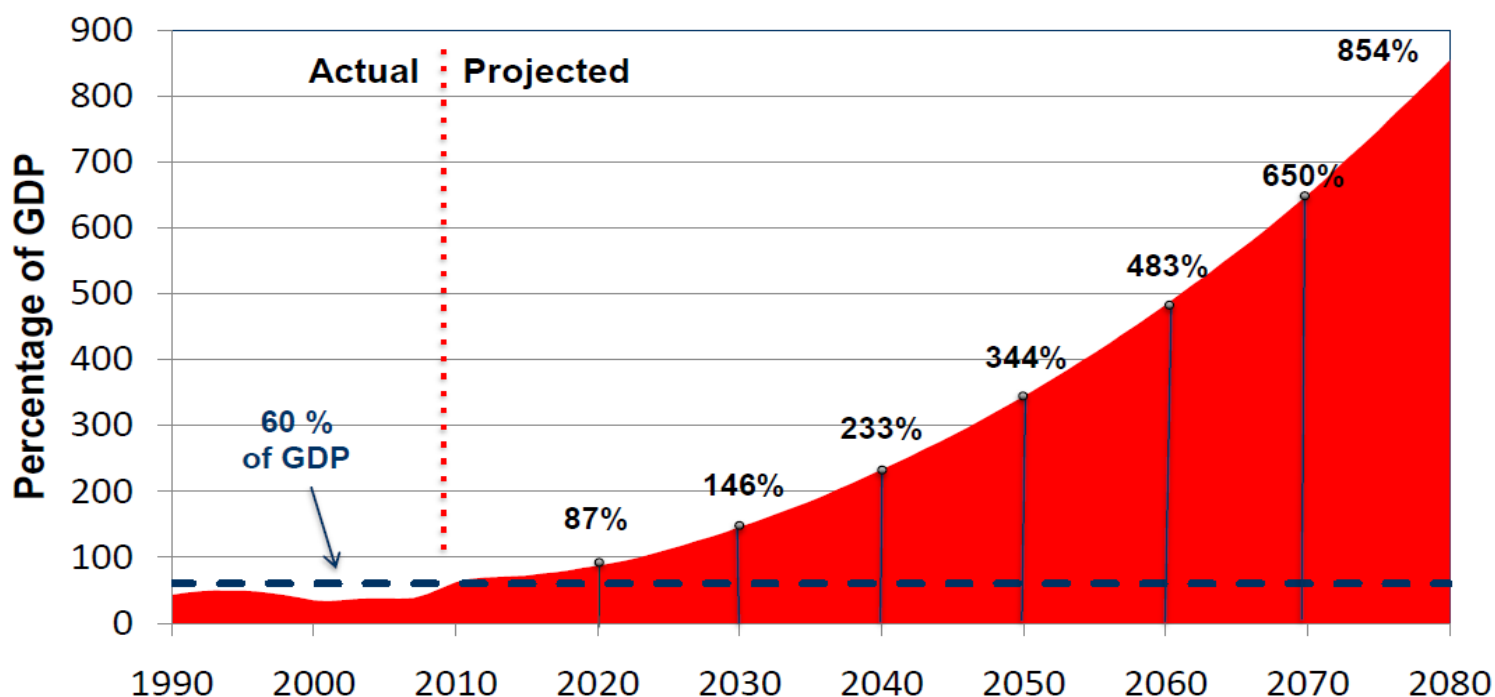
Our Fiscal Future



Future Debt Burdens



Future U.S. Debt Held by the Public is projected to soar if current policies remain unchanged



SOURCES: Data from the Congressional Budget Office, *Long-Term Budget Outlook: June 2009*; *Long-Term Budget Outlook: June 2010*, alternative fiscal scenario. Compiled by PGPF.

NOTE: Debt held by the public refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities. The alternative fiscal scenario includes several changes to current law that are widely anticipated to occur (i.e. adjustments to Medicare payment rates).

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Growing Foreign Dependency



U.S. dependency on foreign lenders to finance the public debt has risen sharply

1970
Total Debt: \$283 billion

Foreign Holdings:
5%



1990
Total Debt: \$2,412 billion

Foreign Holdings:
19%



2010 est.
Total Debt: \$8,633 billion

Foreign Holdings:
46%

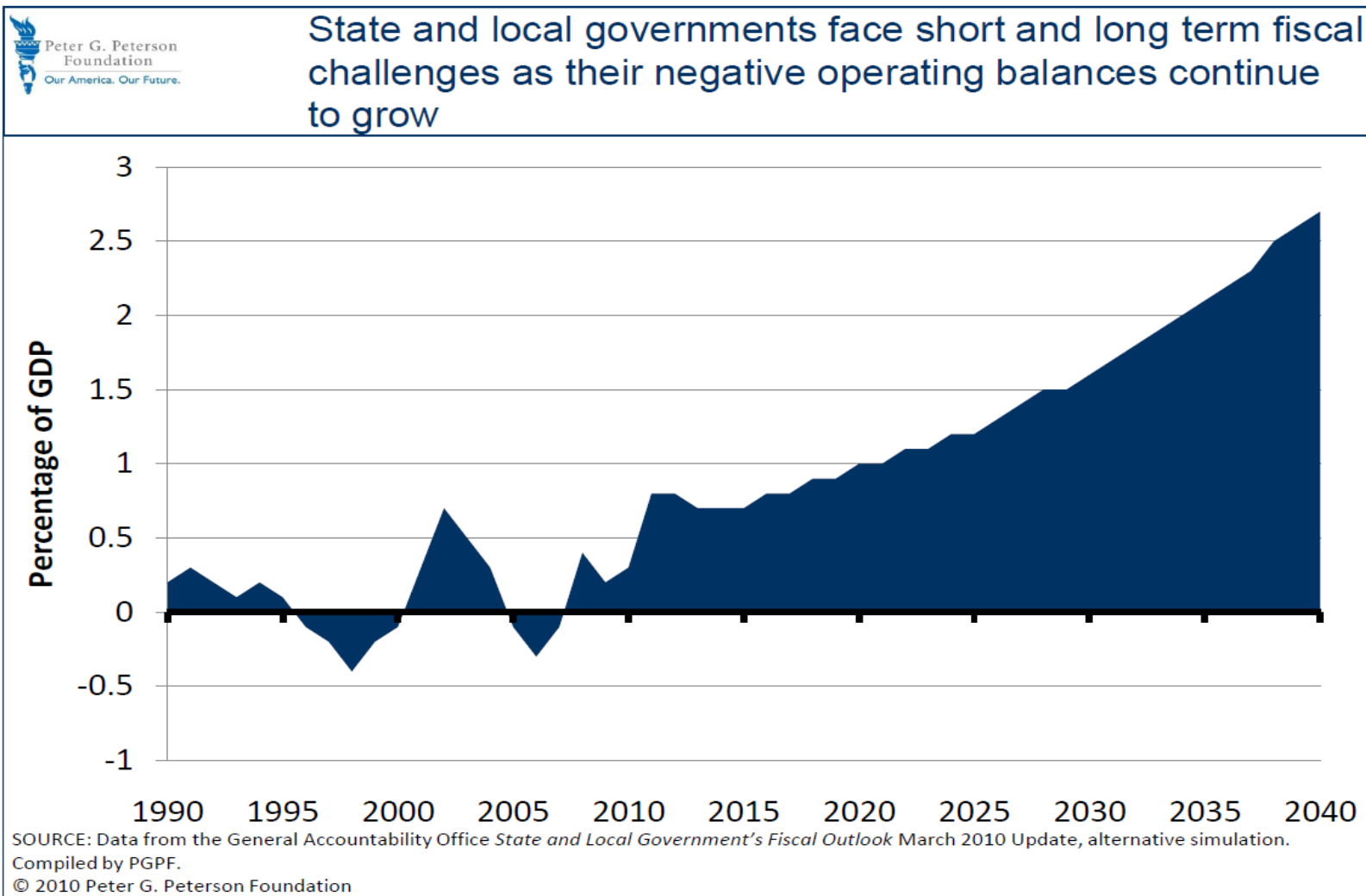


SOURCES: Data for 1970 and 1990 from the Office of Management and Budget, *A New Era of Responsibility: The 2011 Budget, Analytical Perspectives*, February 2010. Data for 2010 from Department of Treasury, *Daily Treasury Statement* (June 30, 2010) and Treasury International Capital Reporting System, April 15, 2010 release. Compiled by PGPF.

NOTE: 2010 data reflects debt levels through February 2010.

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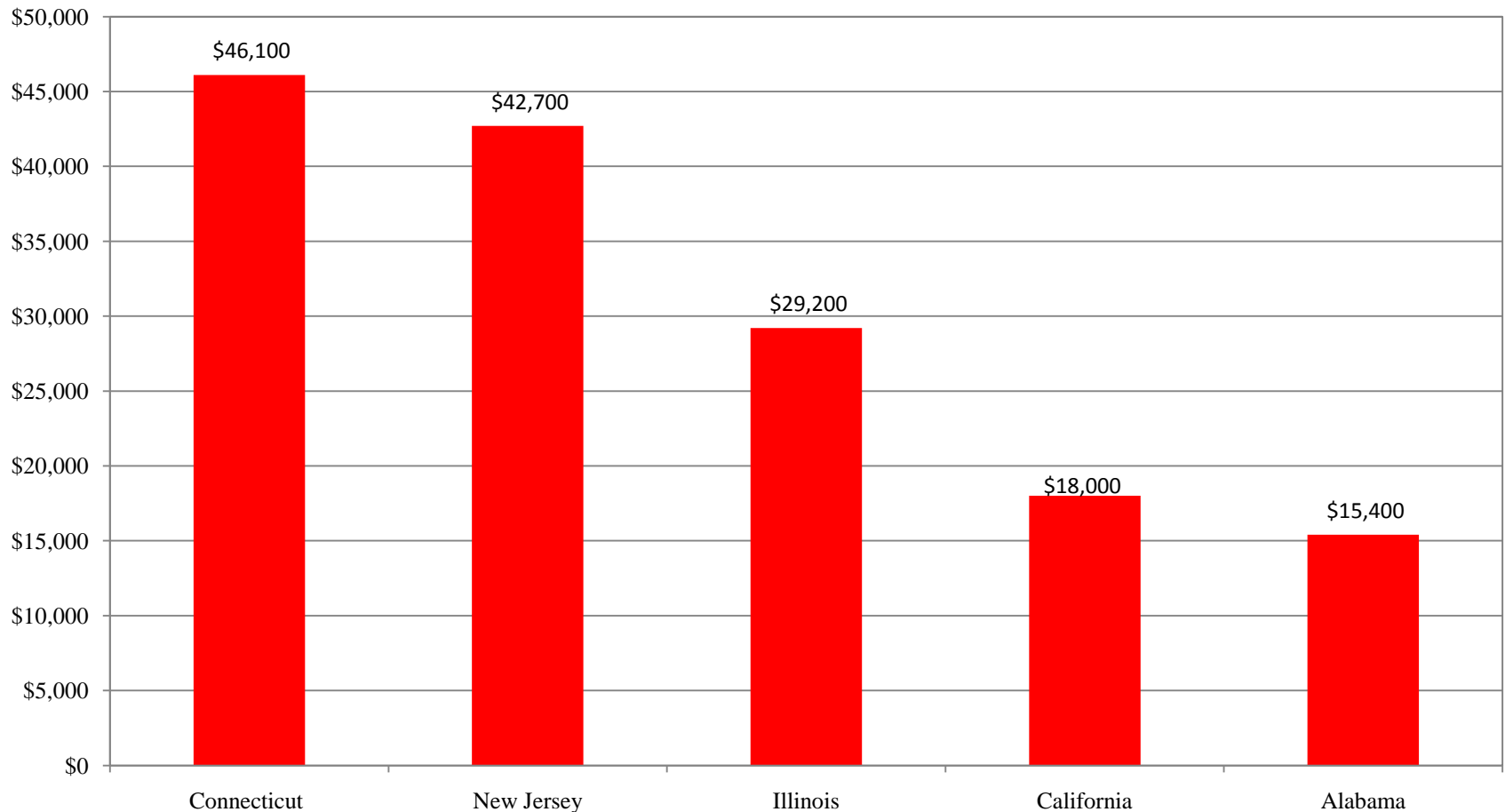
State and Local Deficits



Key Systemic Challenges

- Expansion of government at all levels
- Health Care Costs
- Retirement Income Costs
- Disability and Welfare Related Costs
- Critical Infrastructure Needs
- Education Costs
- Corrections Costs
- Outdated and Inadequate Revenue Systems
- Myopia, tunnel vision, special interests and self-interest.

Total Liabilities and Unfunded Obligations Per Capita



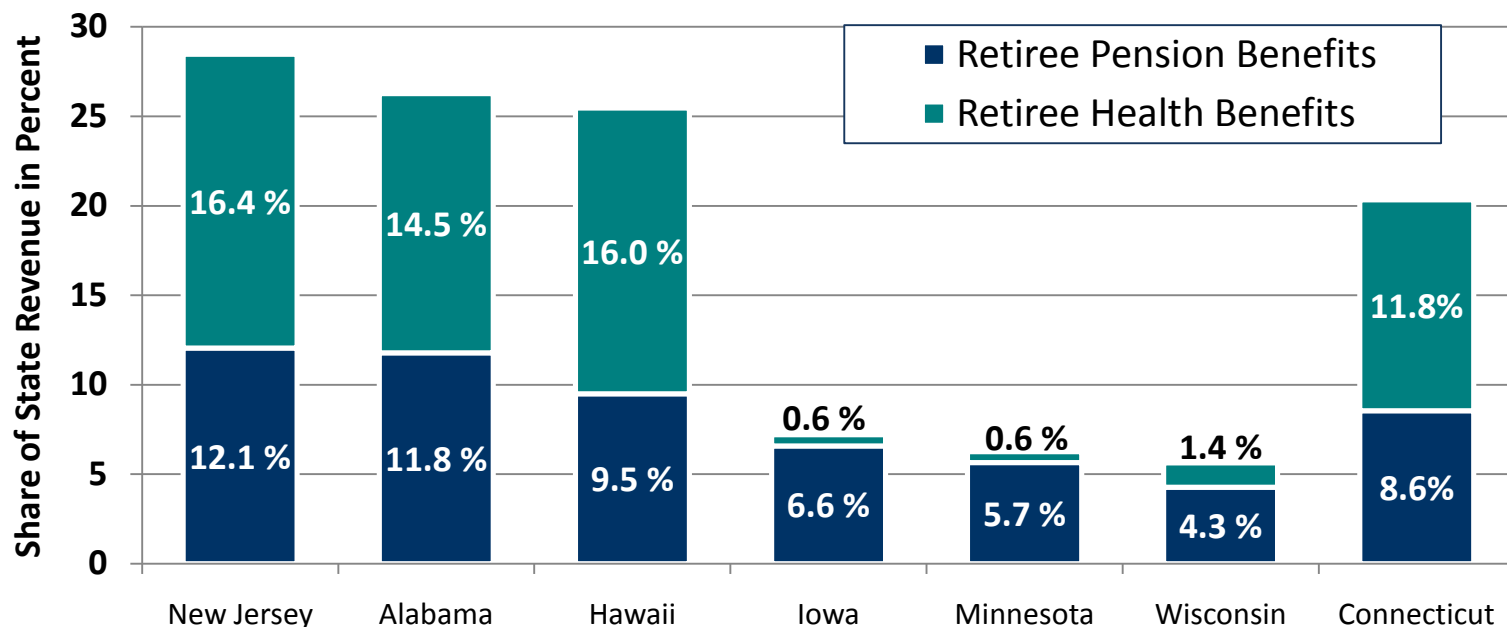
SOURCE: Truth in Accounting Institute, State of the States Report.

NOTE: All figures are from June 30, 2009. Compiled by TCAII.

The State of State Pension and Health Plans



Actuarially Required Contribution to Retiree Health and Pension Funds (as a Share of State Revenue) in Fiscal Year 2008



NOTE: The actuarially required contribution is the annual contribution to the retiree pension and health funds required for future assets to be in line with future liabilities within 30 years. It has two components: a normal contribution to keep up with new benefit obligations accrued, and a catch-up payment to make up for the current gap between pension assets and liabilities. The data for both revenues and unfunded obligations are for fiscal year 2008. Most states end their fiscal year in June of 2008,

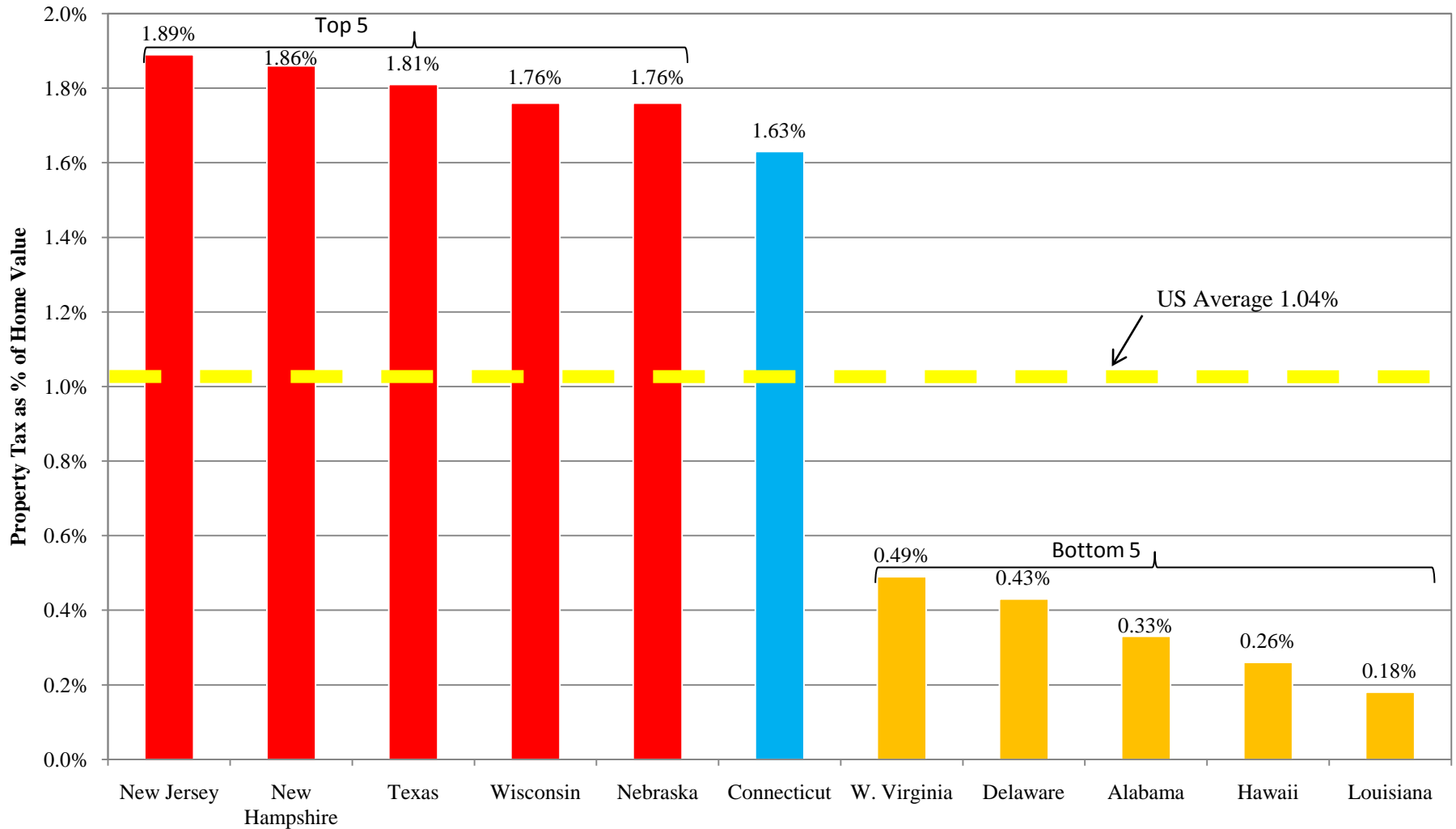
State and Local Ratings

State and City Moody's Ratings

State	City
Georgia –Aaa	Alexandria, VA - Aaa
Texas - Aaa	Jacksonville, FL – Aa1
Virginia -Aaa	San Francisco – Aa1
Alabama – Aa1	Atlanta – Aa2/A1
Florida –Aa1/Aa2	Washington – Aa2/Aa1
Connecticut - Aa2	Chicago – Aa2
New York – Aa2	Houston – Aa2
New Jersey –Aa2/Aa3	New York – Aa2
California – A1	Bridgeport, CT - A1
Illinois - A1	Miami - A1

SOURCE: Data from Moody's website, Look-up Ratings. Compiled by PGPF.
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State Property Tax Burdens



SOURCE: Tax Foundation, Property Taxes on Owner-Occupied Housing, by State 2009.
Compiled by TCAII.

A Phased Approach

- Calendar 2011
 - Tough 2011 and 2012 Budgets (Short-Term)
 - Earmarks Moratorium (Short-Term)
 - Selected Pay and Hiring Freezes (Short-Term)
 - Leading By Example (Short-Term)
 - Statutory Budget Controls (Structural)
 - Transformation and Accountability Task Force (Structural)
- 2011 – 2013
 - Congressional Hearings
 - Citizen Education/Engagement
- 2013 -?
 - Role and Size of Government (Structural)
 - Health Care Coverage Reform and Cost Controls (Structural)
 - Comprehensive Tax Reform (Structural)
 - Comprehensive Social Security Reform (Structural)

“Yes, We Can”

*“Yes, we can do what it takes to create a better future,
but we all must do our part, and we need to start
now.”*

-Hon. David M. Walker, Former Comptroller General
of the United States (1988-2008)



The Need for Good Governance, Transparency, and Accountability

Good governance, transparency, and accountability are critical in:

- The private sector, to promote efficiency and effectiveness in the capital and credit markets, and overall economic growth, both domestically and internationally
- The public sector, for the effective and credible functioning of a healthy democracy, and in fulfilling the government's responsibility to citizens and taxpayers
- The independent (not-for-profit) sector, to promote the proper use of resources consistent with the organization's mission and applicable laws and to maintain the trust and confidence of contributors
- All sectors, to support a healthy economy that provides economic opportunities and benefits to citizens

Sorting out the needs—as well as the effective and appropriate governance and accountability mechanisms for different sectors and types of organizations—is essential, both on a domestic and international scale

The Future Accounting/Reporting and Audit Reporting Model

We need to review and revise the existing accounting/ reporting model to reflect several dimensions:

- Generic provisions
- Industry information
- Entity-specific information (i.e., value and risk)

We need to recognize the difference between certain types of financial and other information:

- Historical cost
- Readily marketable assets
- Non-readily marketable assets
- Projection information
- Performance information



The Future Accounting/Reporting and Audit Reporting Model

We need to review and revise the existing audit reporting model to accomplish at least four objectives:

- Recognize that the opinion should address whether the financial statements are fairly presented in all material respects and prepared in accordance with authoritative accounting principles (e.g., promulgated by FASB, GASB, FASAB, IFAC)
- Expand the auditor's report to include key value and risk-based performance and projection information over time and as appropriate
- Update the audit reporting model to link it with the new financial reporting model, and provide appropriate degrees of assurance for each type of information to improve value and reduce risk
- We need to move beyond "going concern opinions" to provide more timely and meaningful information to the users of financial statements in appropriate circumstances (e.g. US government)

We need to ultimately go global in connection with all major accounting and audit matters

We need to coordinate domestic efforts in the interim (e.g., U.S. Auditing Standards Coordinating forum)

Accountability Risks in the Federal Government

In the U.S., government accountability professionals face many challenges:

- A number of “high-risk areas” and “major management challenges”
- Current trends and challenges that have no boundaries
- A range of fiscal and other sustainability challenges that grow over time
- The failure to link resources and authorities to results (outcomes)
- Rising expectations for demonstrable results and enhanced responsiveness
- A number of outdated federal policies, programs, structures, systems, and activities

Our challenge is huge and growing bigger each year



New Players on the Fiscal Responsibility Field

Comeback America Initiative (CAI)
Bridgeport, CT
www.TCAI.org

No Labels
Washington, DC
www.nolabels.org