

Leadership Challenges Given Today's Fiscal Realities

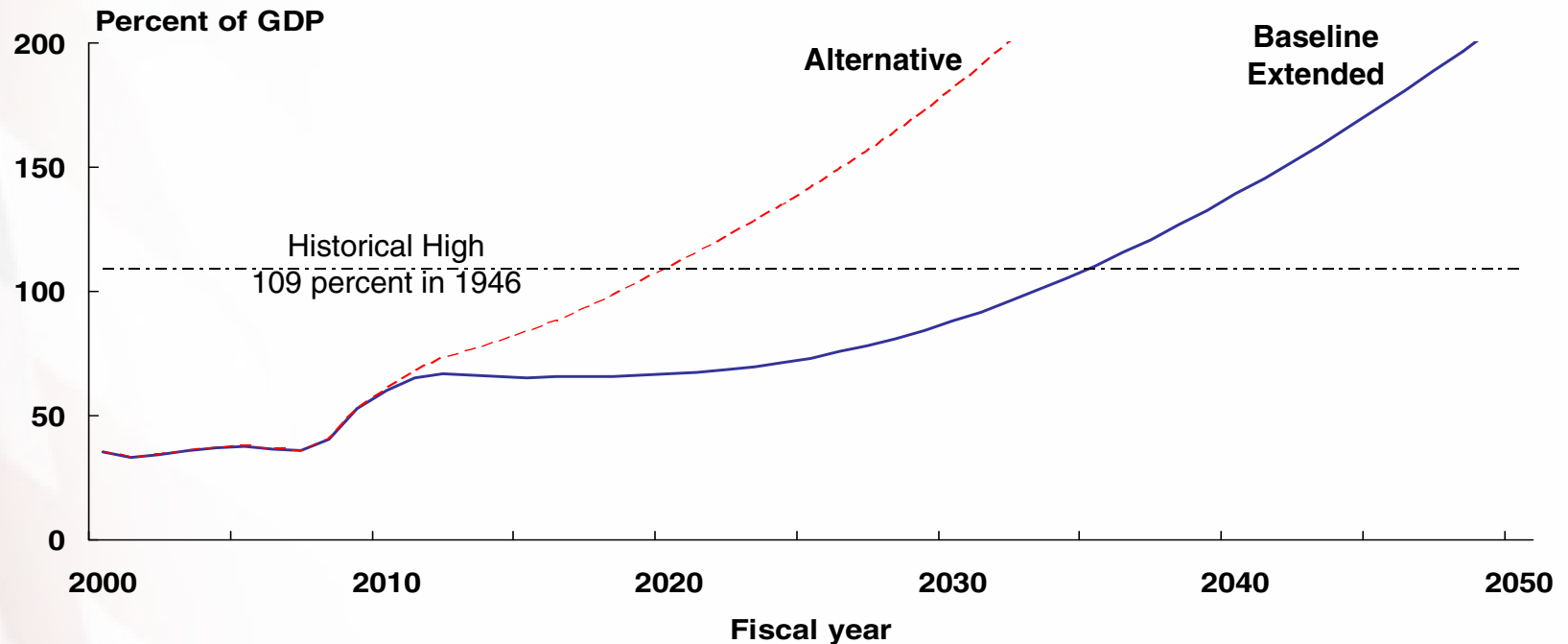
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Acting Comptroller General**

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- Long-Term Fiscal Challenges
 - American Recovery and Reinvestment Act Implementation
 - Emergency Economic Stabilization Act Experience
 - Examples of the Need for Transformation

Long-Term Fiscal Challenges

Debt Held by the Public Under Two Fiscal Policy Simulations



Source: GAO.

Note: Data are from GAO's January 2010 analysis based on the Trustees' assumptions for Social Security and Medicare. Some of the increase in debt has been used to purchase financial assets as part of programs to stabilize financial markets and stimulate the economy. The value of these financial assets has not been subtracted from the total debt held by public in our simulations.

Pressures on the Federal Budget in the Near Term

2008	Oldest members of the baby-boom generation became eligible for early Social Security retirement benefits
2008	Medicare Hospital Insurance (HI) outlays exceeded cash income
2010	Social Security runs first cash deficit since 1984 ^a
2011	Oldest members of the baby-boom generation become eligible for Medicare
2014	45 percent of Medicare outlays funded by general revenue ^b
2016	Social Security begins running consistent annual cash deficits
2017	Medicare HI trust fund exhausted. Income sufficient to pay about 81 percent of benefits ^b
2020	Debt held by the public under GAO's Alternative simulation exceeds the historical high reached in the aftermath of World War II

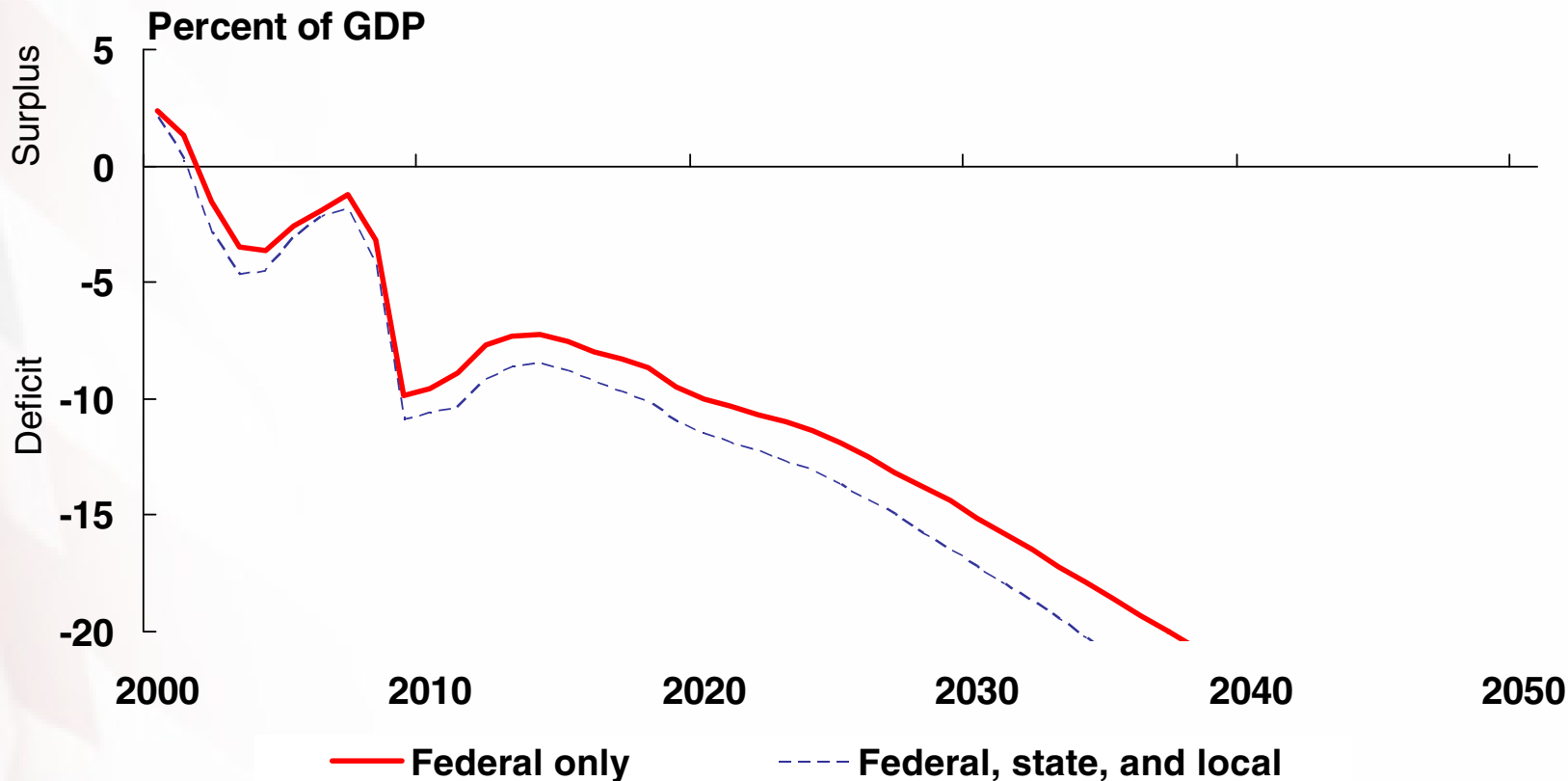
Source: GAO analysis.

Notes:

^aBased on CBO's January 2010 baseline projections.

^bBased on 2009 *Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (May 12, 2009).

Federal and Combined Federal, State, and Local Deficits as Shares of GDP



Source: GAO.

Note: federal data are from GAO's Alternative simulation.

Not Just a U.S. Challenge

- **Financial market stress in other major industrial nations**
- **Public debt levels in other major industrial countries have also increased dramatically.**
- **Projections show many countries on a path of rising debt to GDP ratios.**

Moving Forward

- **Budget Controls**
- **Creation of Commission**
- **Continued Public Education, Discussion, and Debate**

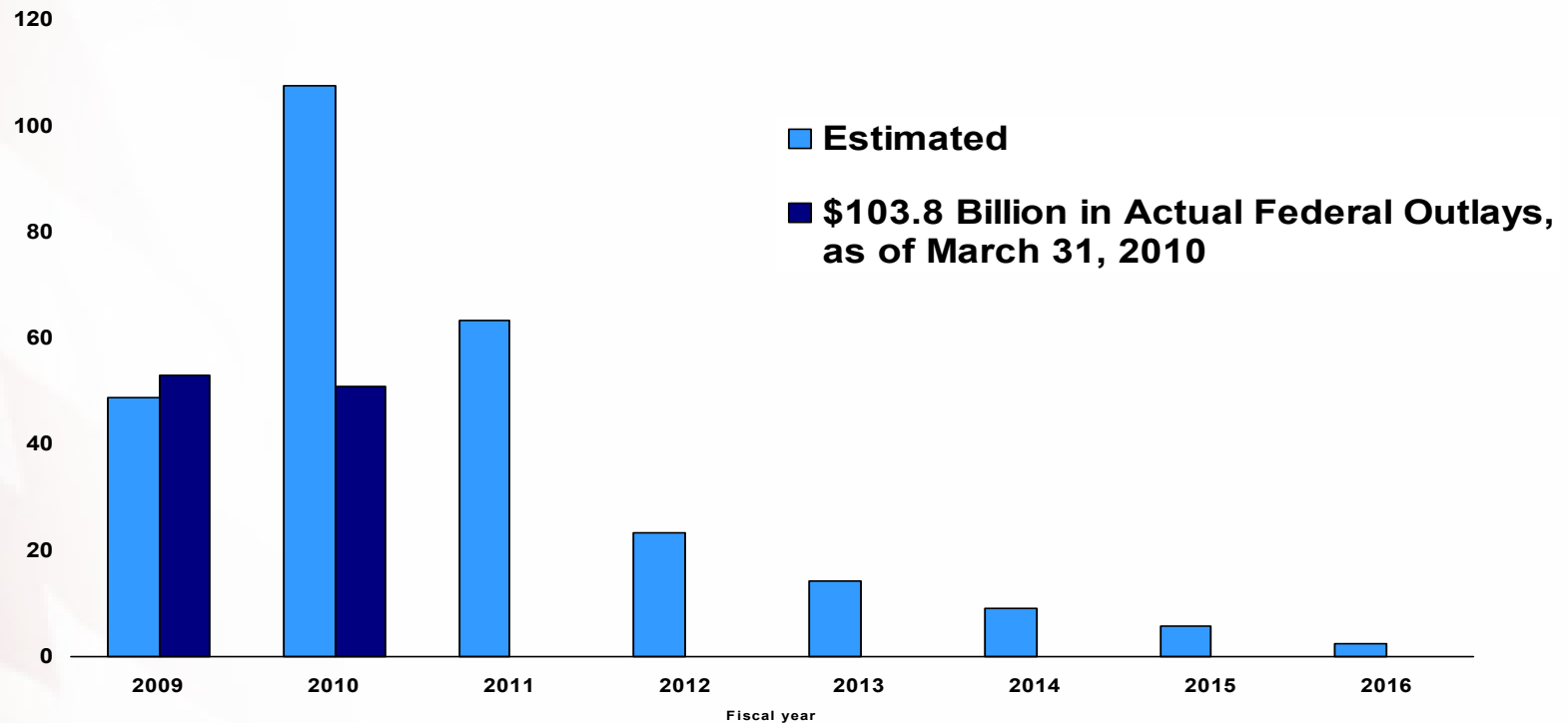
American Recovery and Reinvestment Act Implementation

American Recovery & Reinvestment Act

- Signed February 17, 2009
- Purpose:
 - Preserve/create jobs and promote recovery
 - Assist those most hurt by the recession
 - Invest in infrastructure
 - Stabilize state and local government budgets
- Total cost (tax and spending): \$862 billion, including over \$626 billion in additional spending (CBO Estimate)

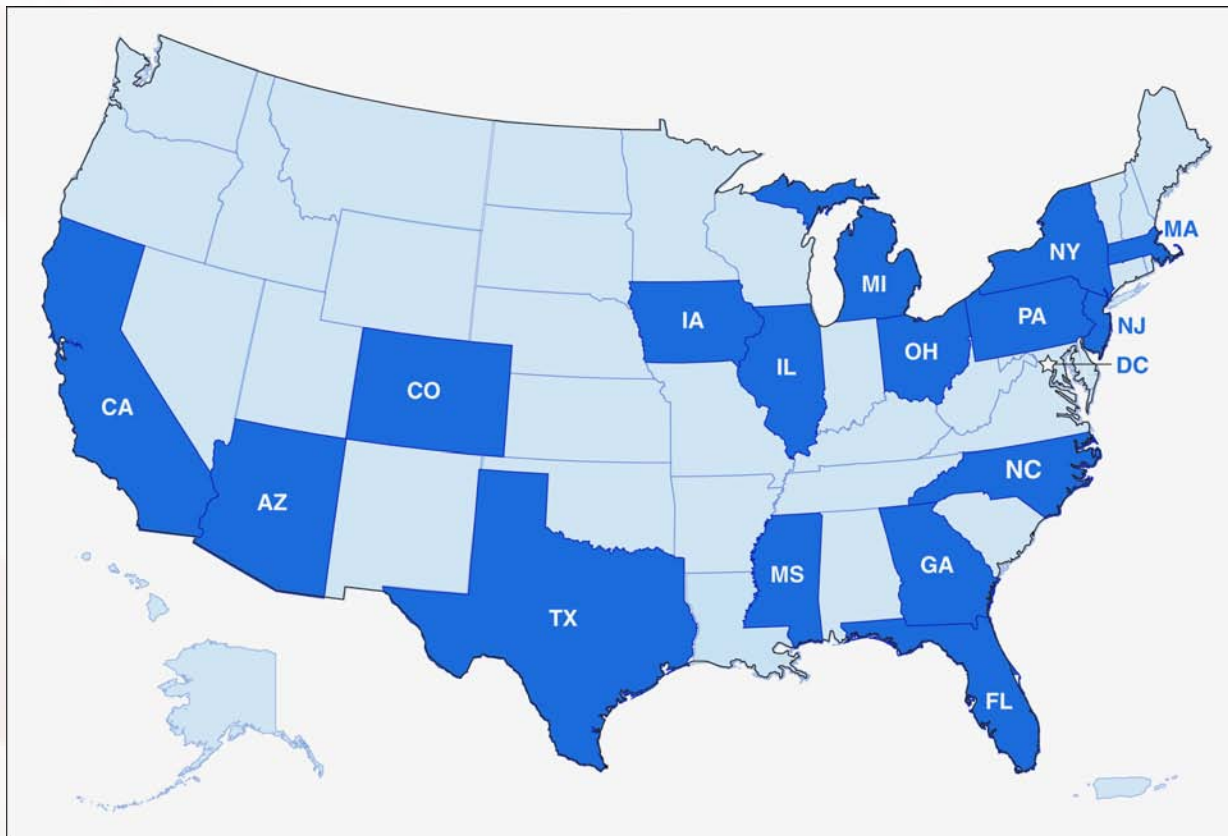
Projected Versus Actual Federal Outlays to States and Localities Under the Recovery Act

Outlays in billions of dollars



Source: GAO analysis of data from CBO, Recovery.gov and Federal Funds Information for States.

GAO's Monitoring of Selected States



Source: GAO analysis.

1. Arizona
2. California
3. Colorado
4. Florida
5. Georgia
6. Illinois
7. Iowa
8. Massachusetts
9. Michigan
10. Mississippi
11. New Jersey
12. New York
13. North Carolina
14. Ohio
15. Pennsylvania
16. Texas
17. Washington, D.C.

Recovery Act: GAO's Reporting Objectives

GAO's reports on states and localities focus on:

- Use of funds
- Safeguards and internal controls
- The impact of funds

GAO also comments on jobs created and retained as reported by recipients.

Recovery Act Challenges for Officials at All Levels of Government

- Expectations for transparency and accountability
- Qualified personnel need to implement proper accountability
- Close and ongoing coordination needed

GAO Recommendations

- **GAO has made 28 recommendations to 5 federal agencies (DOT, HUD, Education, DOL, and OMB) regarding:**
 - **Accountability and Transparency**
 - **Reporting on Impact and Guidance**
 - **Resource Allocation and Capacity**

EMERGENCY ECONOMIC STABILIZATION EXPERIENCE

Troubled Asset Relief Program (TARP)

- Emergency Economic Stabilization Act of 2008 created \$700 billion TARP in October 2008
- GAO given statutory oversight role
- GAO's TARP reports' recommendations follow 3 themes:
 - Monitoring the use of funds to meet the Act's objectives
 - Articulating a better communication strategy
 - Ensuring effective Treasury management

Status of Troubled Asset Relief Program Outstanding Balances

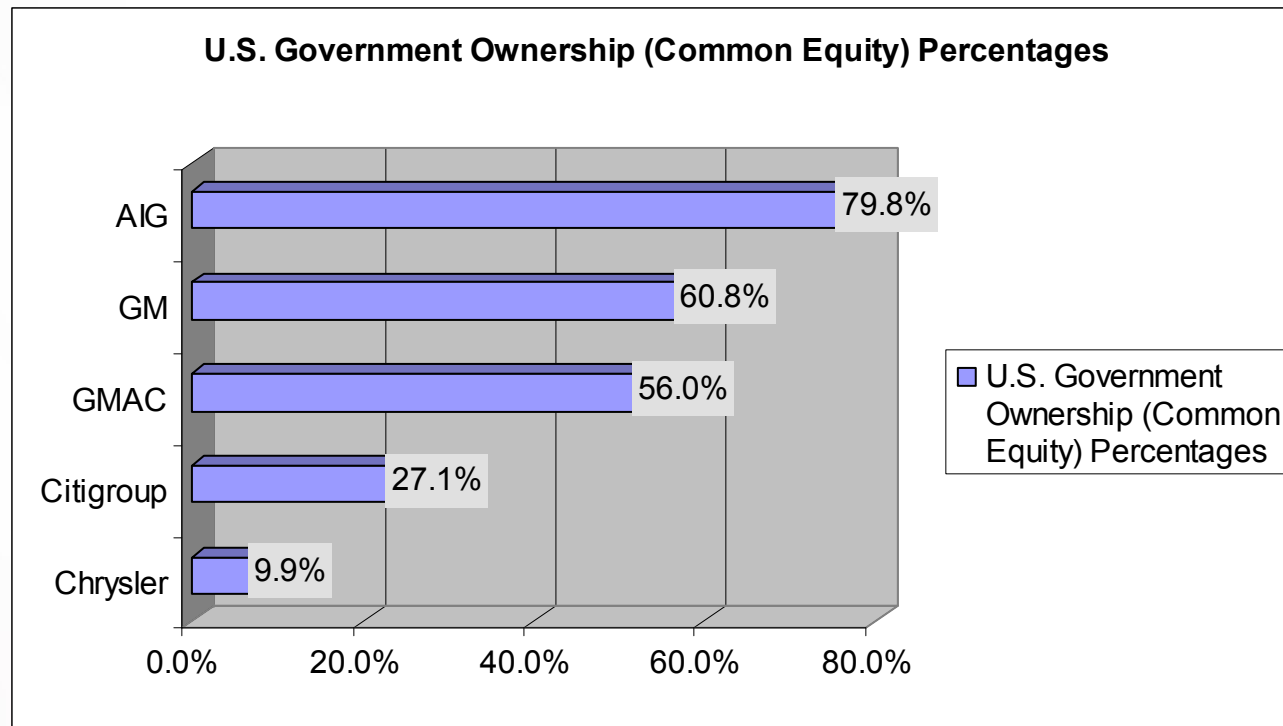
- As of April 9, 2010, Treasury had disbursed about \$381 billion of the almost \$700 billion in program funds, and had received repayments of about \$181 billion.
- A total of about \$198 billion remains outstanding (see table below).

Status of TARP Funds as of April 9, 2010 (dollars in billions)

Program	Gross Outstanding Balance
Capital Purchase Program	\$66.7 *
AIG	47.5
Targeted Investment Program	0.0
Consumer & Business Lending Initiative: Term Asset-backed Securities Loan Facility & Small Business and Community Lending Initiative	0.1
Automotive Industry Financing Program	75.1
Public-Private Investment Program	8.2
Totals	\$197.6

* Amount outstanding for CPP excludes about \$2.3 billion which Treasury has written off.

Status of U.S. Government Ownership of Selected Companies



AIG, GM, and Chrysler – As of Sept. 30, 2009; GMAC and Citigroup – As of Dec. 31, 2009.

All percentages relate to TARP, except for AIG which relates to the U.S. Government’s beneficial interest in a trust. Also, the percentages only represent common equity and do not reflect additional financial instruments held by the U.S. Government in these entities (e.g., preferred stock, warrants, and direct loans).

GAO's Ongoing and Future Monitoring Efforts

- Capital Purchase Program,
- Home Affordable Modification Program,
- Automobile Industry Financing Program,
- AIG,
- Small Business Lending Initiatives,
- Stress tests, and
- Decision to Extend TARP

Examples of Need for Transformation

- Financial Regulation
- Postal Service
- FDA: Medical Device Safety

Modernizing The U.S. Financial Regulatory System

Financial Regulation: A Framework for Crafting and Assessing Proposals to Modernize the Outdated U.S. Financial Regulatory System

- Explains the origins of the current financial regulatory system
- Describes market developments and changes that pose challenges to the current system
- Presents an evaluation framework that Congress and others can use to craft or evaluate potential regulatory reform efforts

(GAO-09-216, Jan. 8, 2009)

Financial Regulatory System Outdated

Risks posed by:

- Emergence of large, complex, and interconnected financial conglomerates
- Less-regulated entities are playing increasingly critical roles in the financial system
- New and complex products pose challenges to system stability and consumer protection

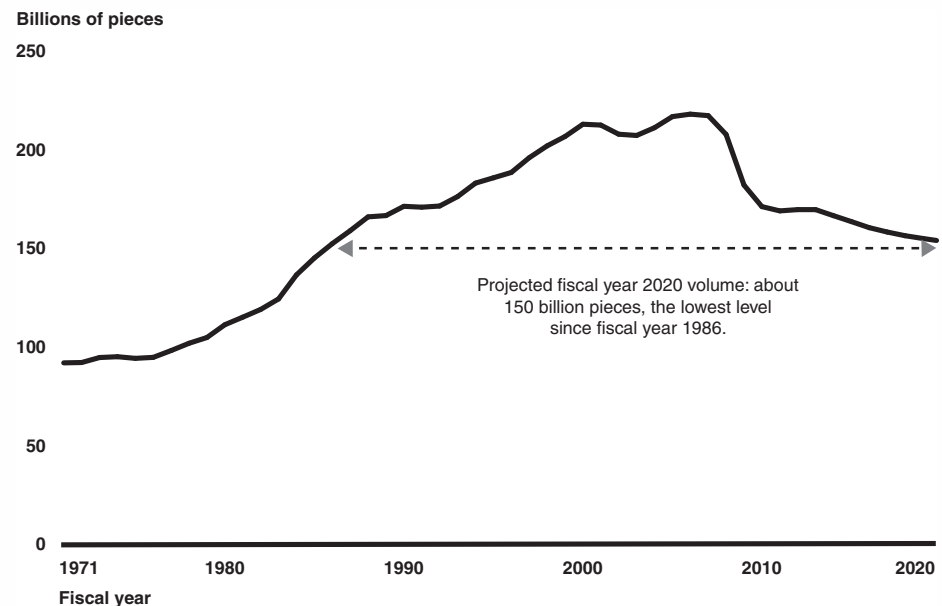
Crafting or Assessing Regulatory Reform Proposals: GAO Framework—9 Essential Characteristics

- Clearly defined regulatory goals in statute
- Appropriately comprehensive
- Systemwide focus
- Flexible and adaptable
- Efficient and effective
- Consistent consumer and investor protections
- Regulators provided with independence, prominence, authority, and accountability
- Consistent financial oversight
- Minimal taxpayer exposure

U.S. Postal Service Financial Viability

- The Postal Service’s business model is not viable due to its inability to reduce costs sufficiently in response to continuing mail volume and revenue declines.
- Mail volume is projected to decline by about 27 billion pieces over the next decade, while revenues will stagnate, and costs will rise.
- Given its financial problems and outlook, the Postal Service cannot support its current level of service and operations.

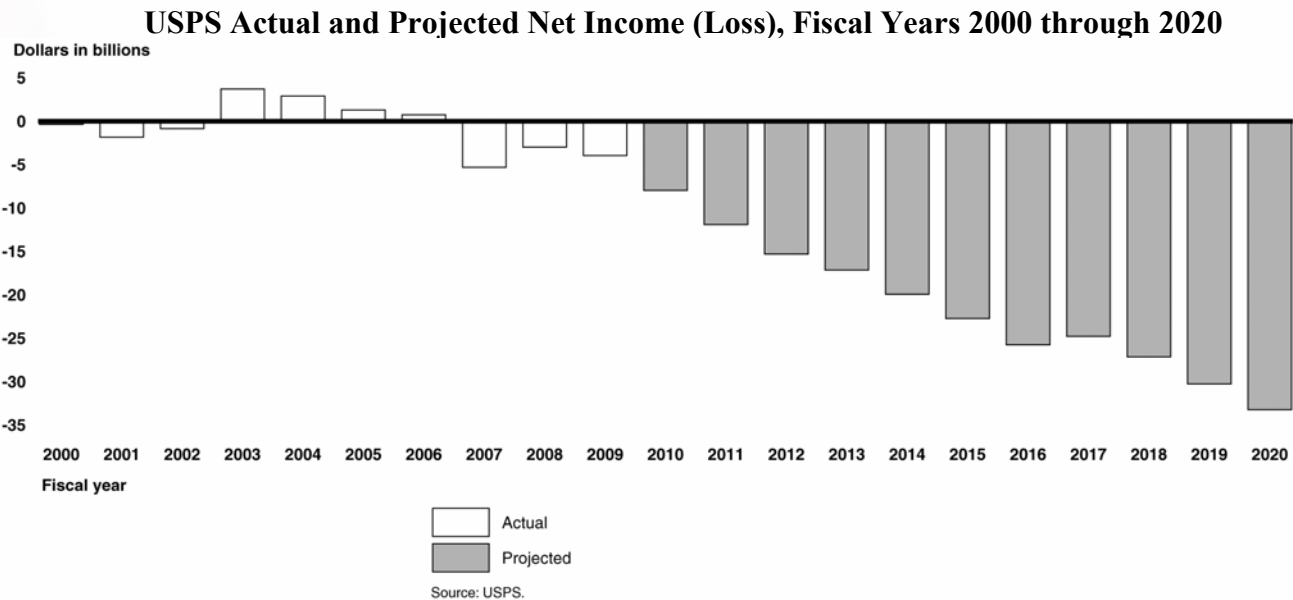
Actual and Projected Total Mail Volume, Fiscal Years 1971 through 2020



Source: USPS.

U.S. Postal Service Financial Viability

- Without major changes in its operations, the Postal Service projects that annual financial losses will escalate over the next decade to \$33 billion in fiscal year 2020.



U.S. Postal Service Financial Viability

Action by Congress and the Postal Service urgently needed to facilitate progress:

- (1) more aggressive action needed to realign Postal Service operations and its workforce while increasing revenues within its current authority, using the collective bargaining process to address wages, benefits, and workforce flexibility; and
- (2) Congress needs to address legal restrictions and resistance to broader changes in the postal network and workforce.

The longer it takes for Congress and the Postal Service to address these challenges, the more difficult they will be to overcome.

Need for Transformation: FDA and Medical Product Safety

- FDA is an agency in need of considerable transformation
 - Serious concerns exist regarding its oversight of the safety of drugs and medical products
 - Concerns have been raised by Congress, CRS, IOM, the HHS-OIG, and FDA's own Science Board
 - We added FDA's oversight of medical products to our High-Risk List in January 2009

FDA and Medical Product Safety

- Challenges include globalization and data and resource management
- We recommended that FDA
 - Conduct more inspections of foreign establishments and improve the data it uses to manage its foreign inspection program.
 - Take steps to establish a comprehensive and reliable basis for substantiating its resource needs

FDA and Medical Product Safety

- Additional safety related challenges include postmarket safety and Safe Medical Device Act
- We recommended that FDA:
 - Develop a comprehensive plan for transferring certain postmarket safety decisions to another component of the agency
 - Expeditiously take steps to reclassify device types to appropriately reflect their true risk level

On the Web

Web site: www.gao.gov/cghome.htm

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