What’s the Scariest Picture You Can Think Of?
The Current Fiscal Path is Unsustainable

Composition of Spending as a Share of GDP

Percentage of GDP

Fiscal year

2010 2020 2030 2040

Net interest  Social Security  Medicare and Medicaid  All other spending

Revenue

Source: GAO.
Note: Data are from GAO’s January 2011 simulations, which used the 2010 Trustees’ assumptions for Social Security and CMS Actuary’s alternative assumption for Medicare.
*This also includes spending for insurance exchange subsidies and CHIP.
Overview of Key Points

- Restoring the nation’s fiscal health will be a daunting challenge due to:
  - Demographic trends
  - Lack of political consensus
  - Rising expectations of government

- These challenges will require the nation to fundamentally reexamine and transform:
  - What the government does
  - How the government does it
  - Who does the government’s work
  - How it all gets paid for

- As future public leaders, you will need to help lead this reexamination and transformation process
  - What will it take to be a successful leader?
  - What skills and competencies will be essential?
The Nation Faces a Long-Term Fiscal Challenge

Key drivers include
- Demographic trends
- Lack of political consensus
- Rising expectations of government

Source: U.S. Social Security Administration
Cost of Entitlement Programs are Increasing

Source: GAO.

Note: Projections for Social Security are based on CBO’s August 2011 baseline through 2021 and the Trustees’ 2011 intermediate assumptions thereafter. Projections for Medicare are based on the CMS Actuary’s alternative assumptions. Projections for Medicaid, the Children’s Health Insurance Program (CHIP), & state health insurance exchange subsidies are based on CBO’s short-term estimates (from August 2011) and long-term projections (from June 2011) of outlays for those programs, adjusted to reflect excess cost growth consistent with the 2011 Trustees’ intermediate assumptions. This figure does not take into account reductions in spending for Medicare and exchange subsidies from 2013-2021 that stem from provisions in the Budget Control Act.
Other Federal Programs Are Being Squeezed
Federal Spending for Mandatory and Discretionary Programs

1970: 31% Mandatory, 62% Discretionary, 7% Net Interest
1986: 55% Mandatory, 44% Discretionary, 14% Net Interest
2010: 62% Mandatory, 39% Discretionary, 6% Net Interest

Source: Office of Management and Budget.
How Big is Your Share of the Fiscal Burden?

- Total Fiscal Gap, 2011: $48.6 trillion
- Burden
  - Per person: $156,000
  - Per full-time worker: $346,000
- Income (2010)
  - Median household income: $49,445
- Median sales price, existing home: $170,000

Notes: Total fiscal gap is based on the government net position (reported assets - liabilities = $14.8 trillion) plus expected expenditures in excess of revenues for major social insurance programs ($33.8 trillion) from A Citizen’s Guide to the Fiscal Year 2011 Financial Report of the United States Government, U.S. Dept. of the Treasury.

2 U.S. Census Bureau, [http://www.census.gov/compendia/statab/2012/tables/12s0978.pdf](http://www.census.gov/compendia/statab/2012/tables/12s0978.pdf).
How Did This Situation Arise?

- Much of today’s government reflects post WW II priorities

- We are spending finite dollars on activities that might be outmoded or lower priority

- We do not know the extent to which today’s programs are producing real, desirable, and sustainable results
Observations Going Forward

- The gap between spending and revenues will likely remain large even as the economy improves.

- The public sector has entered an era of decremental budgeting.

- Expectations of government continue to rise.
The Bottom Line

Painful Tradeoffs Lie Ahead

- Eliminating waste and inefficiency is not enough.

- Policy choices will affect what government services we receive and how much we will pay for them.
## Most Spending Cuts Remain Unpopular

<table>
<thead>
<tr>
<th></th>
<th>Favor cuts</th>
<th>Oppose cuts</th>
<th>No Opinion</th>
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</thead>
<tbody>
<tr>
<td>Foreign aid</td>
<td>59 %</td>
<td>37 %</td>
<td>4 %</td>
</tr>
<tr>
<td>Funding for the arts and sciences</td>
<td>46</td>
<td>52</td>
<td>2</td>
</tr>
<tr>
<td>Aid to farmers</td>
<td>44</td>
<td>53</td>
<td>3</td>
</tr>
<tr>
<td>Homeland security</td>
<td>42</td>
<td>56</td>
<td>3</td>
</tr>
<tr>
<td>Military and national defense</td>
<td>42</td>
<td>57</td>
<td>1</td>
</tr>
<tr>
<td>Anti-poverty programs</td>
<td>39</td>
<td>55</td>
<td>6</td>
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<tr>
<td>Medicare</td>
<td>38</td>
<td>61</td>
<td>1</td>
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<tr>
<td>Social Security</td>
<td>36</td>
<td>64</td>
<td>2</td>
</tr>
<tr>
<td>Education</td>
<td>32</td>
<td>67</td>
<td>2</td>
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</table>

Source: USA Today/Gallup, Jan. 14-16, 2011
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Social Security
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Some of the Washington Post’s Biggest Government “Oops” of 2011

- The Air Force Dover Mortuary Scandal: the Air Force admitted it shipped incinerated remains from at least 274 troops to a Virginia landfill between 2004 and 2008.

- Federal waste, fraud, and abuse: The federal government made about $116 billion in improper payments in FY 2011 to fraudulent government contractors, lying federal beneficiaries and dead federal retirees.

- FAA: At least 9 air traffic controllers admitted to falling asleep while on the job.

- Solyndra: Allegations of improper stimulus grants awarded to an energy company that went bankrupt.

- USAJobs.gov malfunctions: Federal jobs site was slow and resumes were lost.

Reexamine and Transform What the Government Does and How it Does it

- Culture of many agencies today
  - Hierarchical
  - Stovepipes
  - Process and output oriented
  - Reactive behavior
  - Inwardly focused
  - Avoiding technology
  - Hoarding knowledge
  - Avoiding risk
  - Protecting turf
  - Employee direction

- Culture of high performing organizations
  - Flatter and more horizontal
  - Matrixes
  - Results/outcome oriented
  - Proactive approaches
  - Externally focused
  - Leveraging technology
  - Sharing knowledge
  - Managing risk
  - Forming partnerships
  - Employee empowerment
Stewardship Skills are Essential to Transformation

- Key stewardship skills include the ability to
  - Lead creatively
  - Build and sustain external partnerships
  - Manage people strategically
  - Use analytics
Lead Creatively

Creative leaders:

- Maximize value, mitigate risk, and enhance responsiveness
- Articulate a clear, compelling mission for the organization
- Drive continuous improvement
- Provide commitment and sustained leadership
- Distinguish between what’s right vs. what’s popular
- Focus on both process and outcomes
- Understands where an organization needs to be, how it’s going to get there, and when it knows it has arrived
- Promote organizational reexamination
Lead Creatively (cont’d.)

- Key Reexamination Questions
  - Why was a program initiated—all was the intended goal?
  - Have significant changes occurred that affect its purpose?
  - Are there outcome-based measures to assess progress in
    meeting its intended goals?
  - Is it properly targeted to areas where needs are greatest?
  - Is it using the most cost-effective approaches when compared to
    other tools and program designs?
  - Does it use prevailing leading practices?

# FEMA’s Shaky Leadership, As Seen Through Five Disasters

**Leaders Have a Profound Impact on Organizational Performance**

<table>
<thead>
<tr>
<th>Date</th>
<th>Disaster</th>
<th>Perception of FEMA’s Response</th>
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<tbody>
<tr>
<td>Sept. 1989</td>
<td>Hurricane Hugo</td>
<td>“the sorriest bunch of bureaucratic jackasses I’ve ever known.” Sen. Ernest Hollings</td>
</tr>
<tr>
<td>May – Sept. 1993</td>
<td>Mid-Western floods</td>
<td>“Whenever we asked for assistance it was there.” Ellen Gordon, administrator of Iowa’s Emergency Management Division</td>
</tr>
<tr>
<td>April, 1995</td>
<td>Oklahoma City bombing</td>
<td>“My office is very happy with the quick response of FEMA.” Director, Oklahoma Civil Emergency Management Department</td>
</tr>
<tr>
<td>Aug. 2005</td>
<td>Hurricane Katrina</td>
<td>“It was like nobody’s turning the key to start the engine” FEMA employee</td>
</tr>
</tbody>
</table>


Build and Sustain External Partnerships

Partnering offers numerous advantages. . .

- Allows organizations to join forces to address common challenges
- Takes advantage of “street-level” knowledge of client needs
- Enlists the support of local groups in seeking solutions to public problems
- Shortens the pipeline between service providers and service recipients
- Provides a grassroots vs. bureaucratic approach to addressing society’s problems
The Census Bureau Used partnerships to Help Ensure an Accurate Enumeration

Census workers had trouble entering certain communities.

Group Quarters or single housing unit?
Manage People Strategically

- Committed leadership
- Talent management
- Build a results-oriented culture
- Develop an inclusive, diverse work environment
Managing a Multi-Sector, Multi-Generational Workforce Will Require New Skills and Tools

- Agencies are making greater use of blended and flexible workforces
- Four distinct generations are working together
- Managers will need to recognize, understand, and value employee differences
- Work environments must support success

Source: NASA
Use Analytics to Inform Decisions

- Data can inform decisions but federal agencies often:
  - struggle to access each other’s data;
  - have trouble making sense of their data; and
  - face difficulties meeting the escalating demands for data.

Final Exam

How are these companies connected?

- American Cotton Oil
- American Sugar
- American Tobacco
- Chicago Gas
- Distilling & Cattle Feeding
- General Electric
- Laclede Gas
- National Lead
- North American
- Tennessee Coal & Iron
- U.S. Leather
- U.S. Rubber
Final Exam

Organizations Must Transform to Meet Emerging Trends

- American Cotton Oil
- American Sugar
- American Tobacco
- Chicago Gas
- Distilling & Cattle Feeding
- General Electric
- Laclede Gas
- National Lead
- North American
- Tennessee Coal & Iron
- U.S. Leather (preferred)
- U.S. Rubber
- Distant ancestor of Bestfoods
- Evolved into Amstar Holdings
- Broken up in 1911 antitrust action
- Absorbed by Peoples Gas, 1897
- Evolved into Millennium Chemical
- Still operating; still on DJIA
- Still operating; removed in 1899
- Operating as NL Industries; removed in 1916
- Broken up in 1940s
- Absorbed by U.S. Steel in 1907
- Dissolved in 1952
- Became Uniroyal, now part of Michelin

The Future is Here and Now

- Our nation has faced many challenges in the past and has always risen to meet them

- The sooner we get started the better

- The challenges go beyond numbers, dollars, and partisan politics; it's about values and people
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