



# Chapter 1

## THE *REAL* STATE OF THE UNION

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*I would argue that the most serious threat to the United States is not someone hiding in a cave in Pakistan or Afghanistan, but our own fiscal irresponsibility.*

—David Walker, former comptroller general of the United States

**O**n January 28, 2008, the forty-third president of the United States, George W. Bush, gave the final State of the Union address of his presidency. During the speech, he was interrupted 72 times by applause. Curiously, the president only broached the nation's deficit once, briefly, and then only to reassert the administration's pie-in-the-sky projection that it will be reduced to zero by 2012.

The president asserted his administration's premise that tax cuts would spur economic growth and that growth would, in turn, help the nation "grow" its way out of debt. Yet, even by Congress's own measures, as of late January 2008, the

yearly deficit for that year was already on track to increase by \$219 billion. It in fact ended the year at \$482 billion more than twice the projection. Those figures don't include off-budget spending for the wars in Afghanistan and Iraq. Nor do they include the so-called economic stimulus checks the president and Congress passed out to American consumers in the spring. The economy in the meantime had been teetering towards recession—no “growth” at all—for nearly two years.

During the speech, the President used the word *debt* once, despite the fact that the national I.O.U. had already crossed the \$9 trillion threshold in the same month. By the time the Bush administration leaves office in January 2009 it will have tacked on another trillion.

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***Debt Ceiling:***

*The maximum borrowing power of a governmental entity; this limit is set, and can therefore be raised, by Congress.*

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A complicit Congress has already given the green light for such a debt burden by raising the *debt ceiling* to \$10.6 trillion. On July 26, 2008, Congress snuck the increase into the Federal Housing Finance Regulatory Reform Act of 2008, which was passed to bail out giant mortgage enablers Fannie Mae and Freddie Mac and to help victims of bank foreclosures.

A short review of contemporary history reveals that the State of the Union is nothing more than political theatre. Congress has interrupted every president with partisan applause since the addresses made their television debut during the Eisenhower administration. We combed the archives looking for examples of leadership in tough economic times but found little more than sound bites and vacuous promises:

“We must try to break this calamitous cycle.” President Eisenhower was referring to the huge explosion in our debt during World War II.

“We will continue on the path to a balanced budget.” Then President Johnson put his stamp of approval on Medicare benefits, one of the most expensive programs in federal history.

“We have been self-indulgent,” President Ford chided Congress in 1975.

“and now the bill has come due. . . . The State of the Union is *not* good.”

“We must act today in order to preserve tomorrow.” President Reagan looked earnest, but he grew the debt more than two and a half times—from just under \$1 billion to \$2.6 billion.

“We will solve problems,” George H. W. Bush (number 41) said before failing to keep his promise not to raise taxes, “and not leave them to future generations.”

“We need a spending discipline in Washington, D.C.” said President George W. Bush (number 43) to wild applause on January 28, 2008.

As we have seen, Congress and the presidents bask in the heat of TV camera lights, but behind the scenes—in the committee rooms and oak-paneled bars of Washington D.C.—it is clear that the process for managing the nation’s finances is badly broken. When Bush 43 came into office in 2001, the federal debt was \$5.6 trillion. He’ll leave the next president—and every other American citizen—nearly twice as much. Meanwhile, the real state of the union—or at least the popular perception of it—can be seen by rifling through the headlines of the nation’s mainstream media:

December 4, 2007: “Economy moves to fore as issue for 2008 voters,” writes the *Wall Street Journal*.

March 4, 2008: “Record High for Oil Socks Economy” states the *Chicago Tribune*. Gas prices, too, have been weighing heavily on consumer balance sheets.

May 16, 2008: “U.S. Consumer Confidence at Lowest Since 1980.” reports the *Financial Times*, noting that 1980 was the last year in which concerns about inflation played a major role in a presidential election.

June 30, 2008: “Expect U.S. economic woes to linger into 2009,” warns the *Christian Science Monitor*.

July 1, 2008: “It’s a Murphy’s Law Economy,” says the *Baltimore Sun*, referring to the bursting housing

bubble, suggesting that “whatever can go wrong” in the economy “will.”

Beginning with revelations that the investment bank Bear Stearns was nearly insolvent, in the summer of 2007, the average citizen learned new terms like *subprime* and *inflation* and woke up to the fact that something wasn’t right with the economy.

Enter our first protagonist.

## The Fiscal Cancer

“Who is David Walker?” Steve Kroft asked on CBS’s March 4, 2007, episode of *60 Minutes*, “and why should we care?”

According to Kroft, “He’s the nation’s top accountant—the comptroller general of the United States. He’s totaled up the government’s income liabilities and future obligations and concluded that our current standard of living is unsustainable unless some drastic action is taken . . . and he’s not alone.”

In his capacity as the comptroller general of the United States, David Walker was head of the U.S. Government Accountability Office, better known as the GAO. The office is in the legislative branch of government and, as Walker stated in the documentary *I.O.U.S.A.*, is charged with “improving transparency, enhancing government performance, and assuring accountability for the benefit of the American people.”

Three months before the *60 Minutes* episode aired, we’d had the opportunity to meet with Mr. Walker and came to see that we shared similar concerns for the state of the economy. Over the next year of filming and producing *I.O.U.S.A.*, we talked to him in numerous locations around the country. This first interview was at his office at the GAO in Washington, D.C.

“I was set to be career military,” says Mr. Walker. “I had appointments to the Naval and Air Force Academies but I couldn’t go at the last minute because I had a bad left ear and it kept me out of my military career. I knew it was only

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**GAO:** *This non-partisan agency is the audit, evaluation, and investigative arm of the U.S. Congress and is in the legislative branch of government. It exists to help improve the performance and accountability of the federal government for the benefit of the American people, according to its most recent mission statement. At the helm of the GAO is the Comptroller General of the United States, which is a 15-year position appointed by the President.*

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a matter of time before I decided to serve my country in some way. And I've been fortunate to have three presidential appointments—one from Reagan, one from Bush 41, and this one from Clinton. It's been a pleasure and an honor to serve my country."

Today, however, for Mr. Walker, service to his country includes issuing a dire warning. "We suffer from a fiscal cancer," he asserted on *60 Minutes*. "It is growing within us and if we do not treat it, it could have catastrophic consequences for our country."

**"We suffer from a fiscal cancer," Walker asserted on CBS's *60 Minutes*. "It is growing within us and if we do not treat it, it could have catastrophic consequences for our country."**

Fiscal cancer? Sounds grave. What's he talking about?

Let's see. When we began making the film the federal debt was \$8.7 trillion, and as mentioned in the beginning of this chapter, that number is growing daily at a rapid rate.

With a number this big, it helps to compare it to the overall size of America's economy, or what economists call the *gross domestic product* (GDP). In February 2007, when our federal debt was \$8.7 trillion, our GDP was around \$13.5 trillion in size. That meant that our federal debt was about 64 percent of our GDP. This level of debt to GDP ratio is not the real problem. It's where we are headed that matters.

"In addition," David Walker says, "as you'll find out soon, this \$8.7 trillion number is just a fraction of our fiscal challenge. And it's projected to get much worse in the future."

But Walker isn't banging on his fiscal responsibility drum alone. There are others like him who see an economic disaster of epic proportions waiting for the United States just around the corner, and who are passionate about alerting the American people. Take Bob Bixby, for example, who is the executive director of the Concord Coalition. We first met Mr. Bixby in his office at the Concord Coalition headquarters in Washington, D.C. "Our current fiscal path is unsustainable," he says. "Most people from the left or the right agree

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**Gross Domestic Product (GDP):**

*The total market value of goods and services produced by labor and property located within a country in a given year. When talking about how much debt a country owes, it is often helpful to look at the debt-to-GDP ratio. What a country produces is indicative of the country's ability to pay back its debt.*

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**Concord****Coalition:**

*A nationwide, nonpartisan, grassroots organization dedicated to educating the public about the causes and consequences of federal budget deficits, about the long-term challenges facing America's unsustainable entitlement programs, and about how to build a sound economy for future generations.*

**Fiscal Wake-**

**Up Tour:** *Since 2005, this joint public engagement initiative, made up of the Concord Coalition, the Brookings Institution, the Heritage Foundation, and the Honorable David M. Walker of the Peterson Foundation, has traveled to more than 30 U.S. states holding "town hall meetings" explaining why the country's long-term fiscal policy is unsustainable.*

on that. They may disagree on how to deal with it, but most people think that eventually the fiscal policy of the country is headed over a cliff."

To illustrate his point, Bob entreated us to take a look at the federal budget proposals that were sitting on his desk.

We looked first at the federal budget for 1988, which was jam-packed with numbers, figures, graphs, and charts. It's a slim volume, the size of a short beach read. In addition to data, the document contains a few descriptions of the programs that the president was pushing. Pretty cut-and-dried.

Then Mr. Bixby hefted up the budget for 2005. If 1988s was a beach read, this was *War and Peace*. The budget did have numbers—but now it had color pictures and glossy paper. It "is not what it used to be," says Mr. Bixby, "when it was just numbers and descriptions of the programs. The budget proposal document itself is a kind of a metaphor for what's happening with the federal government."

## The Fiscal Wake-Up Tour

To help voters and the American public understand the gravity of financial crisis facing the nation, David Walker and Bob Bixby have joined together. They've been leading a tour of fiscally minded policy leaders from both sides of the American political aisle. The group hosts a series of luncheons and civic meetings around the country, which they've dubbed the Fiscal Wake-Up Tour.

Early in our coverage of the Tour, David appeared on the *Diane Rehm Show*, a National Public Radio talk show broadcast out of WAMU, the American University radio station. We filmed their discussion from the studio.

"David Walker, the comptroller general of the United States, is here in the studio with us," Ms. Rehm tells her audience. "For the past few years you've gone around the country on what you call the Fiscal Wake-Up Tours. Tell us what those are and why you're doing this."

"There's a coalition of groups that has come together," David says. "The key players are the Concord Coalition, the Brookings Institution, the Heritage Foundation, and myself as comptroller general of the United States. We have many other organizations that are involved as well but those are the four cornerstones.

"What we're doing is we're going outside the beltway to state the facts and speak the truth to the American people, to help them understand where we've been, where we are, where we're headed. Because my view is the only way that elected officials are going to make the tough choices is if the people understand the need for these choices and will not punish them for doing what's right for America's future.

"The facts aren't Democrat or Republican, the facts aren't liberal or conservative—the facts are the facts. And there is broad-based agreement among the Fiscal Wake-Up Tour participants that span the political spectrum: Our financial condition is worse than advertised and we need to act; we need to act soon because time is working against us."

He continued, outlining the four major economic challenges that drew us to his message at the outset of the project: "America faces four serious deficits today. The first is a budget deficit; the second is a savings deficit; the third is a balance of payments deficit, of which the trade deficit is a subset; and the fourth and most serious of all is a leadership deficit."

"How can this be happening to the richest country in the world?" Diane Rehm wanted to know.

"Well, we've lost our way, quite frankly."

The four deficits facing the nation, as outlined by David in over 50 speeches and interviews given since the Fiscal Wake-Up Tour began on September 26, 2005, would ultimately form the framework for the film and subsequently this book.

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— DAVID WALKER

## The National Conversation

We're in agreement on one fundamental fact: Our current fiscal path is unsustainable. These deficits are not predictions of what could happen in the future. They are imbalances within the U.S. economy that are occurring now. As we write this, in the summer of 2008, the American people are slowly awakening from their easy credit and housing bubble-induced slumber. The problem is that now that these problems—record energy prices, skyrocketing food costs, and an overall weakened economy—are staring them in the face, Americans are generally unprepared to engage in the national conversation occurring concerning these fiscal issues.

As we learned though talking with the average man on the street, people feel daunted and overwhelmed by economics. The simple fact is, we've been apparently successful as a nation for so long that the average citizen hasn't felt compelled to understand what's happening in the economy. Fear of gigantic numbers, seemingly indiscernible statistics, debates over theory, and partisan bickering among the national political parties only add to the confusion. When people don't understand something, they tend to dismiss it. What the average American doesn't realize is that what happens at the Federal Reserve . . . in a Senate Budget Committee hearing . . . at a scrapyard in Los Angeles . . . or even in a lightbulb factory in China, directly affects them.

What we hope to do in the next few chapters is arm you with the language and resources necessary to engage in this national conversation so that you can hold your elected officials accountable for their decisions.