Brought to you by:

0:04

JIM: The US is facing some significant challenges in the future with budget deficits, rising debt, and a Medicare and social security system that seems in doubt. Joining us today is David Walker, past Comptroller General of the US and author of the book, Come Back America. He is not only going to share with us the seriousness of our challenges but he also shares with us his hope and vision that will make America great again. Welcome, David.

0:29

DAVID WALKER: It’s good to be with you.

0:31

JIM: It’s a real pleasure. I’m so glad that we have this time today. You’ve been one of the more outspoken people that’s been in the beltline that speaks the truth and I know we have a serious problem here in this country. You can’t just keep writing bad checks where there’s no money behind them. It seems like over the last few years we’ve put deficit spending on overdrive. Do you see this as something we need to worry about? Is there a point of no return? Where do you see this debt that we’re on?

0:57

DAVID WALKER: We don’t need to worry about deficits per se. What we do have to worry about is debt and how much debt do we have as a percentage of our economy. Deficits have come down quite a bit in recent years but they’re still almost $500 billion and the way that they’ve come down have been such that we haven’t really addressed what we need to address to put our finances in order over time. Ultimately, you have to do comprehensive tax reform. Ultimately, you have to reform social security, Medicare, and Medicaid. You have to rationalize the promises under the Affordable Care Act. You also have to reprioritize other spending in the federal government. Shockingly, the fastest growing expense in the federal government over the next 10 years is interest on the debt and we’ve got some real exposure there because interest rates are very low right now and they’re not going to stay low forever.

1:51

JIM: What are you thinking that we need to do for reform of the tax code? Do you mean we’re going to have much higher tax rates to look forward to? Is that going to effect the individual tax payers or on the corporate side? Where do you see where those changes need to come from?

2:04

DAVID WALKER: We need comprehensive tax reform. Right now, people are talking about business tax reform and by that they mean corporations who pay taxes as a C Corporation but, as you know and your listeners probably know, a vast majority of the businesses in America are small and medium-sized businesses and even some of the larger businesses aren’t taxed at the corporate level. They’re taxed as individuals because they’re sole proprietorships, they’re partnerships. They’re other types of business entities that are taxed at the individual level, so we need to make our tax code simpler, fairer. We need to improve its competitiveness. We need to also generate adequate revenues to pay our bills and deliver on the promises that we intend to keep. I think that’s likely to mean fewer deductions, exemptions, credits, and exclusions over time in exchange for lower marginal tax rates but what we ultimately need to do is to have more people paying something while, at the same point in time, making sure that we have progressivity with regard to the effective tax rate that people pay. In other words, that’s the actual tax rate they pay rather than what the statutory rate is.

3:09

JIM: Those are fantastic points and you also brought up the social security and Medicare and that’s something that scares me to death. Being a financial planner, I look at a lot of my clients. More and more of them are more and more dependent on social security and Medicare and I see the statistics of the unfunded liabilities and I wonder is this thing just going to implode or what can we do and I know it was meant for somebody at end of life and, when they designed these programs, people’s life expectancy was set to end before they started collecting benefits and, now, we have people living 30, sometimes 40 years collecting social security and Medicare. What do you see as being a solution and still fulfil the promises but allow that to be sustainable?

3:52

DAVID WALKER: There’s no question that there are more people that are relying upon social security and Medicare in retirement and there’s also no question that people are living a lot longer than was the case when social security was founded in 1935 and may believe that our life expectancies are likely to continue to increase although you’ve got be careful with averages. There are some segments of our society where life expectancy has increased a lot more than other segments of our society. The bottom line is this. Social security has a significant unfunded obligation but it doesn’t face an immediate crises. It’s got enough revenues and reserves to be able to pay full benefits until about 2032. At the same point in time, at that point in time if we do nothing, it will face a cliff and benefits will have to be cut dramatically across the board. That really doesn’t make any sense. Therefore, what we ought to do is reform social security now or at least soon to make it solvent, sustainable, and secure, and we can go into some of the possibilities of what that reform might look like. On the other hand, Medicare is much more underfunded that social security and the truth is the government has over promised with regard to healthcare and it’s ultimately going to have to rationalize those promises. Reforms are needed there. The changes are likely to be much more dramatic over time but the changes are likely to affect people who are better off financially because, right now, we have a situation where a significant majority of the population receives very generous subsidies for their Medicare irrespective of their income and wealth. That’s not going to continue over time.

5:27

JIM: We’re going to take a short break. When we come back, I’d like to talk a little bit more about the social security and Medicare problems that we face and what we might be able to do to fix them. Please stay tuned.

5:36

DAVID WALKER: Sure.

5:37

BREAK

5:54

JIM: Welcome back as we continue to visit with David Walker, past Comptroller of the Currency, is that correct?

6:00

DAVID WALKER: Well, Comptroller General of the United States and head of the Government Accountability Office.

6:05

JIM: When I’ve always heard you interviewed, you’re always a straight shooter and telling it like it is and you didn’t put any sugarcoating on the problems that we face, which is pretty unusual coming out of the beltway, and I know you served under different presidents. I know they have a challenge. It doesn’t matter if they have an R behind their name or a D behind their name, they have to juggle what’s best for the country with what’s best for maybe their political careers or their political parties and trying to negotiate all of that can be quite a challenge because, sometimes, doing the right thing isn’t very popular. I don’t know what party or what president in the future may have to face the tough decisions but the more we kick the can down the road, the bigger these decisions are going to be. Do you see a way that there can be enough leadership, let’s say, among both parties that they could actually tackle this issue because every time I hear somebody propose some solutions to helping bridge these gaps, it’s almost like political suicide. They come out and say they’re going to take grandma’s medicines away and all this kind of stuff when it comes to Medicare and social security and that they would suspend checks and all these different things that the political parties do. How do they come together and solve this problem?

7:15

DAVID WALKER: There is hope. The fact is the federal government has overpromised, it has grown too big, and it needs to restructure. Many state and local governments are in the same shape but the good news is that based upon my experience, which includes interaction with citizens in all 50 states, which includes conducting representative town hall forums to be able to tell people the truth, talk about the tough choices, and then get their feedback on possible solutions. The people are ahead of the politicians. They know we’re in trouble. They know you can’t continue to spend more money than you make, charge it to the credit card, and not have a day of reckoning. They’re willing to accept tough choices if they’re part of a comprehensive principle and values-based plan that they deem to be fair. For that to happen, you have to have a Chief Executive Officer at the federal level, that means the President, the state level means the governor, the local level means the mayor. You have to have a chief executive who’s willing to tell people the truth, who’s willing to face tough choices, and is willing to bring people together around nonpartisan solutions that can achieve bipartisan support. I’ve had those forums and we have received a minimum of 77%, up to 92% support for specific reforms in areas dealing with the budget, social security, Medicare, Medicaid, healthcare, defense, taxes, and other areas. It is possible to do it but the Chief Executive Officer has to take the lead and has to work with both political parties and use the bully pulpit that only the Chief Executive has to go directly to the American people and to accelerate action.

8:47

JIM: I’ve always been a glass half full kind of guy. I’ve always been optimistic. I do believe we live in the greatest country in the world and will continue to. I look back about 10 years or so, back to the middle of the 2000s where we had very low unemployment but we had consumer spending that was out of control, the local spending was out of control, the state spending was out of control, federal spending was out of control, and, as long as people could have an SUV in their driveway and take the kids to Disney World, it didn’t matter how they paid for it, if it was on credit or whatever, life was good. I remember telling clients we almost need a major downturn to wake people up. I’m hopeful, like you are, because we’ve seen the deficit spending on a personal level has changed. We actually no longer have a negative savings rate, it’s a positive savings rate. People have fixed their own balance sheets. Corporations have, from what I’ve seen, some of the strongest balance sheets that they’ve had in history so corporations have gotten the message to be lean and mean and live within their means. Then, you take a look at the local governments, the state governments. I’m from Wisconsin. There was a lot of upheaval here but I know a lot of states had to change what they were doing with spending and make some tough choices. We just have DC left to work with and I think it can be done.

10:00

DAVID WALKER: Washington is a lag indicator. It is the most removed from the people and, therefore, it is typically the last to do what needs to be done, and such is clearly the case with regard to our finances. You live in Wisconsin. Your governor, Scott Walker, who, as far as I know, is not related to me, did make a lot of tough choices. He took a lot of heat for it. He had to face three elections within a four year period of time and, fortunately, he prevailed in all three of those elections. You can succeed but that’s an example that you’ve got to have a Chief Executive Officer who’s willing to tell the truth, who’s willing to make tough choices, and who understands that they are going to get major blowback from a variety of parties who are happy with the status quo and don’t want to change until something blows up.

10:46

JIM: You talked earlier about interest rates being low as kind of masking our problems maybe a little bit and the cost of servicing our debt is very low because of the interest rates. Don’t the feds set the interest rate so couldn’t our government just keep the rates artificially low and keep our debt costs low by just keeping the low rates indefinitely?

11:05

DAVID WALKER: The Federal Reserve is engaged in a number of unprecedented actions over the last few years, one of which is it has more than tripled its balance sheet and it has bought a huge amount of Treasury securities. In some points in time during the last several years, it actually bought more than 100% of all the newly issued Treasury securities. In effect, what it has done is it has kept interest rates very low not just through the discount rate that it sets dealing with financial institutions but the fact that it has been the major purchaser of new debt. You can do that for a while. You can’t self-deal in your own debt forever without facing some potential crisis of confidence. Although, at the same point in time, you have to understand that everything in the world is relative. How is the United States compared to other countries around the world and, in many cases, other countries have as large or larger problems than we do with regard to areas like retirement costs, with regard to healthcare costs, with regard to their demographic trends, in other words, the ratio of retirees to active workers, etc. Everything in the world is relative. The bottom line is the Congressional Budget Office estimates that the fastest growing expense in the next 10 years at the federal budget level is interest, for which we get nothing, and that the percentage of the federal budget that is going to be attributable to interest is likely to triple between now and 2030, and there are a lot of people out there that went about the federal budget without considering interest. What they’re saying is they want to continue to borrow 18% of the federal budget in 2030, which is outrageous, irresponsible, among other things.

12:47

JIM: We’re both hopeful that change can happen and we know that the task in front of us is huge so what would your advice be? I know you’ve written some books on the subject, you’ve got a new website that you’re helping to rally some troops, but what can people do to get informed and what steps should they take to help effect this change?

13:08

DAVID WALKER: First, I think that people can count on social security being there. They may have to work somewhat longer in order to be eligible for social security. The benefit amounts may be modified somewhat but I believe the last thing that the federal government would want to do is to create uncertainty with regard to social security. There’s going to have to be much more changes associated with healthcare. Clearly, the government has overpromised there. Its subsidizing way too many people so, therefore, people should assume that they’re going to have to start spending more on healthcare over time than they’re spending right now, especially people who are in retirement. With regard to general practices, I think you need to make sure that you don’t follow the bad example of the federal government by spending more money than you make, charging it to the credit card, and exposing yourself to higher interest expense over time. You need to make sure that you save, that you invest, and you try to preserve as much of your savings as you can until retirement and, then, when you get into retirement, you have to keep in mind that you’re likely to live quite a while so you need to make sure that you’ve got an investment and a preservation strategy that your assets will last during the entire length of time that you are likely to live.

14:18

JIM: Dave, I really appreciate you taking this time to speak with us today. You’ve got a couple different resources where people can get in touch with your ideas and learn more from what your experience has taught you and that is you have your own website, which is deficitranger.com. Is that right?

14:34

DAVID WALKER: That’s correct.

14:35

JIM: You also have a Twitter account.

14:37

DAVID WALKER: That’s right. Its @deficitranger.

14:39

JIM: Okay.

14:40

DAVID WALKER: And I’ve got a Facebook page. I’m one of a number of David Walker’s but it’s the one that says former US Comptroller General. It’s one of the more significant David Walker sites.

14:49

JIM: You also wrote the book, Come Back America, where you really outline some of the problems as well as some of the solutions.

14:55

DAVID WALKER: That’s correct and that’s the key. You can’t just talk about the problem. You have to also talk about sensible solutions that can solve the problem and have the possibility of gaining bipartisan support, which is what it takes to prevail.

15:07

JIM: I appreciate you joining us and, hopefully, people can take what they learned today. You’ve got to get active. You’ve got to talk to your senators, you’ve got to talk to your representatives. Let them know that this is important to you, your grandchildren are depending on it. We do live in the greatest country. We’ve got so many great resources. We can right the ship. We’ve just got to stop ourselves from going off the cliff.

15:28

DAVID WALKER: Let me end with that. We need to make the first three words of the Constitution come alive, We the People. Ultimately, we are responsible and accountable for what does or does not happen in Washington, DC and the various state and local capitals around the country. We need to let our voice be heard. We need to support people who will tell the truth, who will make tough choices, and who are not just living for today but are trying to take steps to help create a better tomorrow for our children and grandchildren.

15:56

JIM: That’s awesome. We’ll leave it with that. Thank you, David.

15:58

DAVID WALKER: Take care.

15:59

JIM: Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.