Lead Left Interview – David M. Walker

THE LEAD | April 15, 2015

This week we speak with the Hon. David M. Walker, Senior Strategic Advisor, PwC, Founder, Comeback America Initiative, and former Comptroller General of the United States. Dave Walker is the author of Comeback America: Turning the Country Around and Restoring Fiscal Responsibility (2010), and will be a keynote speaker at the 22nd annual Atlantic Conferences Symposium on Mezzanine & Middle Market Finance, May 5 -6, NYC: The Summit for Middle Market Debt Finance™.

The Lead Left: David, you did a great video back in 2012 that explains our nation's debt problem very cogently. What's changed since then?

Dave Walker: Randy, the only things that have really changed are the numbers. That's because policymakers haven't treated the disease. Our fiscal problems are structural in nature and they are driven by several systemic issues: demographic trends, rising healthcare costs, our outdated tax code, and welfare programs that are very costly and yet not very effective.

TLL: You'll be addressing these issues in your May 6th keynote at the Atlantic Conferences Middle Market Symposium. What points are you hoping to get across to all of us bankers?

DW: It's basically the same major message. Let me break it down this way. We suffer from three maladies: myopia, only seeing what's right in front of us and not understanding the bigger picture of our fiscal problems; tunnel vision, focusing on one issue at a time; and self-interest. These problems have reached epidemic levels on Washington, DC and they're pretty prevalent in the financial services industry and at the rating agencies.

TLL: The corporate world does tend to focus on its own top and bottom lines.

DW: I help people to understand the bigger picture. For example, it's one thing to look at the deficit, unemployment, interest rates, economic growth, and so on. But without understanding what's behind the numbers, you can get a misleading picture. For example, the national deficit has come down significantly in nominal terms, but debt is still growing at a percentage rate that is faster than the total economy.

TLL: Unemployment is a tricky number as well.

DW: The labor participation rates are close to the lowest they've been in history. If adjusted for a normal labor force participation rate, our unemployment rate would be about four percent higher! Interest rates are being artificially manipulated by the Fed, so how realistic are they? The Fed has tripled its balance sheet and needs to unwind that. How? It's really an unprecedented challenge.

TLL: What will trigger the market to really take these issues seriously? Will it take a cataclysm?

DW: The best way to avoid a disaster scenario is to have a President who makes this a priority and uses the "bully pulpit" to go directly to the people. We need phased-in solutions over time. For example, rates are low to stimulate employment, but as I've said, unemployment is understated. Ironically, if the economy really picks up, you may see the reported unemployment pick up as people return to the work force.

TLL: But the Fed seems spooked by every report coming out, no matter where they point.

DW: In by view, Fed won't raise rates until inflationary pressures pick up. And with oil where it is and the current employment situation, I don't see that happening any time soon. Interestingly, North America is on track to achieve energy independence by 2025. We don't face an imminent fiscal crisis. Our structural challenge is serious but everything is relative. Some parts of the world are in worse shape and we have much greater political stability than most countries. We currently get away with a lot because we're the largest economy and have the largest reserve currency.

TLL: David, take us back a bit into your career, which is quite an impressive one. How did you get started?

DW: I started in public accounting at PWC, then went into government, then to Arthur Andersen. During my tenure at Arthur Andersen, I was tapped to be one of two part-time public trustees for Social Security and Medicare. That's when I started focusing on our structural fiscal challenge. I worked with Stan Ross who was Commissioner of Social Security under President Carter. We both agreed that current entitlement programs were unsustainable in their present form.

TLL: What was the outcome?

DW: We came out with the first ever Public Trustees report in 1991 that essentially said we're ok today, but we have a serious and growing problem over time. The idea was to act sooner in order to get the miracle of compounding working for us, not against us. In 1983, we had no choice but to reform Social Security. We were within months of not being able to pay full benefits when due. Now we've pushed that problem for the combined Social Security until about 2031.

TLL: When you became Comptroller General that must have highlighted the issue for you.

DW: I realized the public is not really aware of these issues, and our lawmakers are living in a cocoon. They are afraid of the political consequences of making tough but needed choices. They don't realize that many Americans are starved for the truth, for leadership, and for solutions.

To be continued the week of April 20

We'll continue with the second half of ourEnhanced Capital interview after the David Walker interview concludes.