Lead Left Interview – David M. Walker (Part 2)

THE LEAD | April 22, 2015

This week we continue our conversation 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™.

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The Lead Left: Back to interest rates for a moment, do you see any increase this year?

David Walker: Until there's a real threat of inflationary pressures, the Fed probably won't raise rates. And as I've said, there's a bigger underemployment problem than many realize. I think we should eliminate the Fed's dual mandate [of inflation and unemployment], but we can't do that until the President and Congress make some real progress on economic growth and our structural deficit challenges. People forget that because of the failure of the President and the Congress acting, the Fed has been the only game in town.

TLL: Where do you see the risks and opportunities for private capital?

DW: I don't think there are any significant rate risks in the near term. But the real question is how much leverage are you taking on, and over what period of time?

TLL: As a plug for the Association for Corporate Growth, they've been highlighting for years how small and medium sized businesses have been the engine for growth and jobs in the US.

DW: So it's clearly counterproductive to restrict capital to that sector. But there are bigger issues. For example, "too big to fail," and the idea of which risks should be borne by shareholders and which by society. We still haven't figured out what to do with the large banks and how to prevent future problems. Government is treating the symptoms not the disease. You don't want private gain if things go right and public loss if things go wrong.

TLL: Sounds like you would be in favor of bringing back Glass-Steagall.

DW: During the credit crisis, the investment banks got bailed out, so clearly the distinction between those firms and the commercial banks wasn't there when it came to government stepping in.

TLL: Do you think anything will get done legislatively before the 2016 elections?

DW: Not much will happen. Maybe some trade deals, but nothing major on healthcare, immigration, tax reform, or infrastructure. Because of the dysfunction in Washington, a disproportionate share of the leadership burden will be put on the President. We'll just have to see who the new one is.

TLL: How should we prioritize what needs to be fixed?

DW: First, we are on a burning platform, so we need a sense of urgency. Then, what are our goals and objectives? Then, what are our core values? Only then can we ask, what do we want to do? In surveys we did as part of our "$10 million a minute" tour, we found that 92% of respondents agreed on the core values. Around 90% agreed on a package of specific reforms of defense spending, healthcare, entitlement, etc.

TLL: What did you think of Simpson-Bowles?

DW: It was a great effort, but the process was not appropriate to achieve concrete results. It's not just what needs to be done, it's how you need to go about getting things done. You need up engage the people outside Washington's Beltway and get the people to put pressure on their elected officials in order to get things done. The President also has to be directly engaged. For example, when I was a partner at Arthur Andersen, I was asked to join President Clinton and Vice President Gore at several public events to pave the way for Social Security reform. That was the right approach and I believe we would have achieved Social Security reform in 1999, if it hadn't been for President Clinton's personal challenge that led to his impeachment.

TLL: David, what's been your biggest personal surprise of your career?

DW: I'd have to say it was the only time I ran for office. Last year I ran for Lieutenant Governor of Connecticut against two life-long residents of the state. It ran a positive, fact-based, and solutions focused campaign. I won both debates and all newspaper endorsements. I lost in the closest three-way race in state history, due to poor ballet design. The name of the gubernatorial candidate who endorsed me was visually aligned with one of the two women who were running against me for the Lt. Gov. position. I was in first place and she was in third place in every poll. Ballot design and uninformed voters caused me to lose. That just shows how superficial politics can be!

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