

**America's Economic Success Conference**  
**July 10, 2008**

- Why would I ever put \$1 billion I never had before into this foundation? Quite aside from the simple fact that it is a passion—where my heart is.
  
- I need to talk about some personal background that might help explain why I am doing this
  
- Father – age 17 without a penny or a word of English
  - Job on a caboose – saved everything
  - 24 hours a day, 25 years – need to get a locksmith
  - “God Bless America” – tears
  - Best education money can buy
  
- The American Dream was very real for him and certainly for me
  
- Today, the majority of the American people do not believe their children will do better than they. That is, of course, the essence of the American Dream
  
- Nor certainly do I. Unless we change our ways, America will be a very different and lesser country than it is today—not only economically, but in our desperately needed capacity to continue to play a leadership role in the world
  
- Unless we, as a country, change our ways and confront some of the long term challenges that I call undeniable, unsustainable and, politically speaking, untouchable
  
- I want to repeat long term challenges. Not the short term challenges that our short-termist society gets fixated on—as in today, with sub-primes, housing prices, energy, food and commodities, etc.

- I must tell you up front: this will not be a charismatic, uplifting, inspirational speech.
- For two reasons. In the first place, I have negative charisma.
- In the second place, I am a great believer in the idea that, over time, an informed democracy is the best democracy.
- And Americans have been misinformed and, yes, dis-informed, sometimes quite intentionally, by politicians who believe that the American people can't take the plain, hard truth.
- I simply do not accept that.
- These serious threats to our future, these unsustainable challenges are not Republican challenges or Democratic challenges. They are American challenges. They are real problems that require real solutions, not partisan rhetoric and certainly not pandering that promises more and more with no indication of how we pay for it
- As you hear what I have to say today, I ask all of us to consider these melancholy questions. How will we feel 10 to 20 years from now if we look back and ask why, oh why didn't we solve these problems before they became a catastrophe? Why didn't my generation make a serious effort? How could we have done this, not simply to America, but to our own children and grandchildren? Could we have a worse feeling?
- Let me emphasize: sensitive to Ted Sorensen's joke...not on short term deficits
- Second question: What makes you think you can make a difference?
- George Stigler – no alternative, no problem
- Something else played a role in my \$1 billion decision

- Father – when I whined about a new car or new bike – it is important to know when you have enough – and we do – and there are many here in Kearney and in Greece who do not
- Fast forward – Vonnegut/Heller story
- Earlier, I said we are going to discuss some challenges that are undeniable and unsustainable
- Every politician I have talked to privately agrees that they are undeniable and unsustainable
- But, today's politics seems to make it self-destructive to do anything that asks Americans to give up anything. Indeed, our politicians promise us more and damn little about how we are going to pay for our current promises, let alone some costly new ones.
- America's body politic and its short-termist, indulgent culture wants it all, wants it now and doesn't want to give up anything – shared sacrifice, which will be necessary, is considered, politically speaking, not only politically incorrect, but politically terminal
- We are told that we are all entitled, including us well off – when one suggests us well off should give up some universal entitlements – Programs for the poor are poor programs—If all on the wagon, who is going to pull it?
- So, we go a step further than LBJ's – guns, butter and tax cuts. If you doubt me, can you name a single sacrifice we have been asked to make since 9/11? In the current political campaign, do you hear anything about what we might give up—except that we fat cats should pay more taxes, which, however inevitable, won't begin to pay for the promises we have already made.

- We are led to believe that everyone is entitled to everything—lower taxes, more spending. No one pays for anything
- I'm not alone in my longer term concerns – Paul Volcker – “This is the most difficult and intractable situation I have ever seen and I have been around a very long time.”
- Our initial focus of the foundation will be on three of these key long term challenges – (1) entitlements, (2) current account or balance payment/trade deficits and savings deficits and (3) health care costs
- I will rattle off a number of official metrics of long term challenges and I hope that at least a few will stick with you. I am told by speech writers that audiences don't like to hear a lot of statistics, particularly negative ones. But I don't intend to pander to an audience as sophisticated as this one.
- As to entitlements, principally Social Security and Medicare
  - Not the \$8.7 trillion public debt you hear about
  - \$53 trillion of the off-the-books unfunded promises – 3 or 4 times the entire GDP
  - That is \$410,000 per household, whose average disposable income is about one tenth of that
  - If we had to treat these unfunded liabilities, as with ERISA, in the federal government budgets, these would add nearly \$1.8 trillion a year to the federal budget. Apparently, we need a Sarbanes/Oxley full disclosure bill for our government accounting like we have for America's public corporations
  - If you wished to use tax increases to fund these unfunded promises, income taxes would have to more than double
  - Payroll taxes, which fall heavily on the middle class that everyone feels deserve a tax cut and which already amount for the largest tax paid by 80% of the public, would have to double

- Many in America, and certainly our Presidential candidates, have laid out their proposals for increased investments in health care, education and R&D
- However, within 20 years, the current entitlement promises plus interest would account for all of the expected revenues—leaving nothing for anything else
- Already, entitlements have crowded out other high investment priorities—desperately needed in our long term economic future
- In 1960, roughly equal federal investment in children, which, of course, is about the future, and the amount spent on us elderly, which is consumption and, frankly, about the past.
- Today, we are spending over 3 times as much on the elderly. And even though the child poverty rate is twice as high as the elderly poverty rate, we spend about 5 times as much per capita on elderly poverty than on child poverty
- My wife is the mother of Big Bird—the founder of Sesame Street—I know the importance of early childhood education
- And this is before 78 million Boomers, twice the previous elderly crop, retire
- In 1960, 5% of the federal budget was invested in critically needed R&D – that number has plunged to 2% - crowding out reality
- So, I would urge you to consider getting involved in entitlement and budgetary reforms
- If you choose not to, it seems to me that you risk being silent if unintentional co-conspirators in permitting your favorite educational investment to be crowded out
- For those saying getting rid of the Bush tax cuts – 1% vs. 9%
- Finally, for those saying one can borrow these amounts – remember these debts and unfunded promises would come to over 4 times our GDP
- At reasonable interest rates, that means interest payments alone more than today's share of GDP in the entire federal budget
- Finally, for those of you who believe in supply side miracles that will allegedly enable us to grow out of these entitlement problems, the GAO estimates it would take growth rates of 15% to 20%, or about six times what we have been achieving

- How can this be when the politicians tell us the Trust Fund will be solvent for another 40-50 years?
  - The Trust Fund oxymoron
- If what I have presented on the entitlement challenge is not joyful enough, let's move on to the second of the long term challenges the Foundation will focus on, that is, the current account balance of payment and savings deficits.
- Because we consume far more than we produce and because we save so little, we have to borrow the rest from foreign sources
- How much are we borrowing and, more important, how much are we projected to borrow? Dysfunctional, dangerous and unprecedented amounts – indeed, today's current account deficits are twice the amounts as the previous record in the 1980s when the dollar fell by one third and 50% against the major currencies
- And, what of the future foreign debt if we stay on the current course?
- PIIE estimates by 2020-2030 foreign debt ratios could already be far higher than what the IMF believes is safe. In this respect, we would begin looking like some developing countries
- What are the various scenarios about these massive foreign debts?
- The soft landing – dollar falls gradually, interest rates rise gradually until the dollar falls another 25% or so
  - The hard landing – Paul Volcker says there is a 75% chance of this happening in 5 years
    - The dollar falls suddenly and deeply, interest rates rise steeply, producing both high inflation and a recession

- Now, if we had more savings, at the national and the personal levels, our country would not be as exposed to these risks
- Government deficits or borrowing, of course, are what the economists call dis-savings or negative savings and that is one reason we have to tame these looming deficits
- Our personal savings rate has also plummeted – gone from one of the biggest savers to the lowest – in some recent months, an unheard of negative personal savings rate
- As recently as the early 1990s, we were saving 8%-10% of our disposable income
- If we are going to rescue our economic future, we, as a nation and we as people, simply must save more
- And, finally, no serious effort to assure our future economic health can avoid the metastasis of our health care costs
  - Twice as much per capita – no discernable difference in health outcomes – heading toward 20% of GDP threatening our very competitiveness
  - Regional variations – backs and prostates
  - Red states/Blue states – cost plus, open ended, blank check
  - Last year of life – 25% to 33 1/3% in U.S.
- What is to be done?
  - Two dimensions
    - Substance/reforms
      - Good news there are good proposals that protect the truly needy. In most of these areas – that is, entitlements, health care costs, increasing savings
      - The problem is not the proposals, the problem is the process of getting something done

- Several ingredients
  - Presidential leadership is essential
  - Bipartisanship – turkey shoot
  - Third, educating, motivating and activating the public
- Easy to blame politicians, but remember most consider these as careers, not in the temporary terms our forefathers had envisioned. And, they don't want to lose their jobs
- Special interests and the here and now – are very well represented and entrenched
  - The future, in general and the young, are, by and large, unrepresented. We need a special interest of the general interest, a special interest for the future, for our children and grandchildren
  - Resilient country
  - The “greatest generation” that lived through the great depression of the 1930s and World War II confronted, overcame and paid for challenges more sobering than those we face today. We can do it again. Indeed, we must do it again
- The question before us is whether it will take a crisis—and a very costly crisis it would be. I must tell you, most of those with government experience believe it would take a crisis—and a very costly crisis it would be
- Avoiding a crisis is one of the focuses of the Foundation – educating, motivating and activating several sectors:
  - Young
  - Business/MIAs
  - Media
- What do we do first? Leader – Dave Walker

- Charismatic accountant
- Young – film, new media – Face Book and My Space, I don't do e-mail
- YPO
- Know this is all very daunting
- Yes, but I ask myself again: Is the alternative to do nothing?