

DAVID WALKER, FORMER U.S. COMPTROLLER GENERAL: Thanks to all of you for coming. I'm going to a little walking (inaudible) up here if I can. I want to thank Roger who – congratulate him on his Chairmanship. He's also, in the interest of full and fair disclosure, an esteemed member of CAI's advisory council. Very appropriate that his first event be a CAI related event.

Second, I want to thank the New York Economic Club. I want to thank Pete Peterson who – the Peterson Foundation provides a very generous grant to fund most of our ongoing operations.

What I'm here to talk to you about today is a special initiative, the Come Back America Initiative, which is funded separately including you know by a number of individuals of different political affiliations, the largest of which being a political independent who has not endorsed a candidate and will not endorse a candidate. And let me note at the outset that I am a political independent and I have been since 1997. I'm an equal opportunity critic, an equal opportunity praiser and we'll start at that.

But let me if I can so we can turn this off in a minute so that we don't have people with sunburn in the very front and everybody didn't bring their sunglasses here today, let me describe what this is. And this is one of the major props on our \$10 million a minute tour which will literally go over 7500 miles over four and a half weeks on a campaign bus to be able to deal with our growing deficits debt.

This is the U.S. financial burden barometer. Many of you have seen the debt clock, it's here in New York City on the building that houses the Internal Revenue Service here in New York. It just crossed \$16 trillion, up from \$5.6 trillion in 2000. But it low balls our problem because it does not consider unfunded civilian and military pensions, retiree health care, the difference between what we've promised for Social Security and Medicare and the payroll taxes and the premiums that we have to deliver on those premiums, a range of other commitments and contingencies that are in the financial statements of the United States but in many cases are off the balance sheet.

And therefore we simply that many Americans have difficulty doing that is we employed basic math principles and we added up these official numbers and came up to \$70, 410,000,000 trillion as of Friday. But also based upon CBO deficit projections, the trustee and Medicare reports and I was a trustee and Medicare from 1990 to 1995, we estimate that the Federal financial sink hole, which is what this is, is going up by \$10 million a minute, \$14.4 billion a day.

Now here's the good news, we hope that will serve to illustrate that our problem is much bigger than the politicians claim, it's growing much faster than they're willing to admit by doing nothing which they've become adept at, but the good news is that unlike the national debt clock, if we're able to achieve a grand bargain next year, and I'm fighting along with others to try to make sure that we do, the national debt clock won't go down one dollar. This could go down tens of trillions of dollars because it's a discounted present value dollar number.

And therefore if you make changes even if their phased in over a number of years which they're going to have to be for major social insurance programs and even for tax reforms we're going to have to phase in a number of these things, this could go down tens of trillions. And therefore politicians can actually credit for doing something significant even though it doesn't

have a major impact on the deficit in the short term. We have to fight myopia, tunnel vision and self interest. And those are maladies that exist and they've reached epidemic proportions in Washington, D.C.

Now let me tell you what we're trying to do and what we're finding and I'm going to save plenty of time for Q and A.

We're trying to help people understand – make people understand that we are literally on a burning platform, financially. That we do not have a choice but to make tough decisions with regard to budget controls, social insurance programs, I do not call them entitlement programs because they are not entitlement.

The Supreme Court has made it clear that the Congress of the United States can change those at any time, they are not guaranteed by the Constitution of the United States. There's only two things that are guaranteed by the Constitution of the United States, bond holders of U.S. debt and military pensions. That's it. Nothing else is guaranteed.

So we have to reform social insurance programs, we have to cut defense, and constrain it's growth without compromising national security. I was on the defense business board for 7 years, I can tell there's plenty of opportunity to do that without compromising national security. We have to end up engaging in comprehensive tax reform that'll make simpler, fair, more competitive, more equitable and generate more revenues. We have determine which federal spending programs are working and which ones aren't, and separate the wheat from the chafe. We need to employ basic management principles, management 101.

We need a plan, we need a budget, and we need performance metrics. Believe it or not next week the U.S. will be 225 years old based upon the – well, based upon the signing of the Constitution. We still don't have a plan, we don't have a budget and we don't have performance metrics. And if you don't have those three things you're going nowhere fast. And we also need political reforms. Let me give you a few facts.

In 1912, 100 years ago, the U.S. government was 2 percent of the U.S. economy. This year it's 24, it's headed to 37 percent on autopilot absent a course correction. In 1912 the Congress of the United States controlled 97 percent of all spending. This year they control 33 percent and, decline. The 33 percent that they control includes all of the express and enumerated responsibilities envisioned by the founding founders under the Constitution, all investments in our future and, all investments in young people.

So what's happened is the government has gotten bigger, it's lost control of the budget, we're spending more and more on consumption, more and more on senior, less and less investment, less and less on young people. We don't know what's working and what's not working. We don't know where we compare to other countries. Let me give you some stats on that.

If you use honest and comparable accounting and, for the record I'm a member of the accounting hall of fame, globally and a Certified Public Accountant, so I can do math, division, multiplication on a good day.

You know when you use honest and comparable accounting, if you want to compare our debt to other European countries and other countries around the world, you have to add Federal, State

and local public debt and, you should add the debt that we owe to Social Security and Medicare because it's guaranteed by the full faith and credit of the United States government as the principle and interest, we're not going to default on that in the so called trust fund, you can't trust them, they're not funded, that's a different story, we can come back to that.

But if you do that you will find there's only two countries in the world that have higher debt to GDP today than we do. Number one is Japan but they finance their own debt. They don't have (inaudible) lenders. The Japanese people fund their own debt. Now they got a problem, they've got big demographic problems, savings rates are going down, and they're a high risk. And secondly, Greece.

And with all due respect to Mr. Peterson and other people of Greek heritage, we don't follow the Greek example here. So we are not exempt from the laws of proven finance. You can't spend a lot more money than you take in, charge it to the credit card, and expect not to have a day of reckoning.

Now what about who owns our debt? Today, the largest holder of our debt, as you know, this sophisticated crowd, is the Federal Reserve. We are self dealing in our own debt. It's a giant Ponzi scheme over time. The number one holder of our debt is Federal Reserve. They've been buying about two-thirds of our new debt over the last 2 years. Who else is buying our debt? China and Japan because they have positive trade balances and they got to do something with their money.

The Federal Reserve is buying the debt because they now have a dual mandate. They're not just supposed to be focused on inflation and trying to provide reasonable, longer term interest rates, hopefully protect the value of the dollar. They've also got to be concerned with unemployment because of the 1978 Humphrey Hawkins Act which politicized the Fed – Fed. And because Congress and the President are totally dysfunctional on fiscal policy and, by the way it's been that way for a while, the Fed is the only game in town.

And they're trying to do everything that they can, given their mandate, to help encourage economic growth, keep interest rates low, help the housing market through low mortgage rates, that's short term gain but increased risk of long term pain. We're going to have make tough choices on fiscal policy, tax, and spending and the Fed's going to have to be reformed and modify its practices going forward if we want our future to be better than our past.

We need to do it in 2013. And in order to do it in 2013 we've got to recognize we got three key phases between now and 2013. We have a general election campaign and of particular import is President of the United States. And it's clear now that the campaign is going to focus on the economy, jobs and fiscal responsibility. And my view is whoever convinces the American people they can do the best job in a prospective basis on those three very important interconnected things, will be elected President of the United States. And neither one of them have done an adequate job in that regard, yet.

The debates must be substantive and solutions oriented. I think the decision for President will be made – or, will be decided after the debates. I think it's important that the candidates be more substantive and solutions oriented so that whoever wins can claim they have a mandate because if we're waiting on Congress to solve our problem you might as well move.

They are dysfunctional today, they will be dysfunctional next year. The country only has one chief executive officer who also happens to be Commander and Chief who is the President of the United States. And with that office comes extraordinary responsibilities and opportunities to lead.

And so we need this debate to be about this in substance and solution so the American people can make an informed decision because there are very big differences between the candidates, so that whoever wins can claim to have a mandate. And we need the first three words of the Constitution, we the people, to come alive to pressure elected officials to start making tough choices and if they fail to do so, throw them out.

Because we are now dominated by career politicians who may or may not have had a real job but, once they get elected they don't and, they'll want to keep it for life. And when somebody starts looking at their elected position as a long term job and a career rather than temporary public service, that is not conducive towards telling truth, towards making tough choices, towards innovation and, that's where we are today.

We started this tour on Friday at the ground zero for New Hampshire politics, the New Hampshire Institute of Politics. No more that – no place in the country has had more presidential candidates appear and debate than that one facility. And what happened?

Senator Bernie Sanders, I respect him because he's a United States Senator, the only avowed socialist in the Senate. But he crossed state lines. And he organized a pre-event effort to try to orchestrate a protest of our citizen engagement activity. But what he didn't know is I found out about it. So I went to the event and I listened very carefully to the disinformation and misinformation and therefore so when the busloads of people who came, who had been there with you know banners and otherwise to do protests and all kinds of things.

When they came the first thing I did was I said you know how many of you were at Senator Sanders' event? And about 20 percent of the crowd raised their hand. I said let me tell you where I agree with him, where I disagree, you make up your own mind because a lot of things that he said were false and misleading, you make up your own mind.

The good news is we had 2 hours of substantive interaction on budget controls, Social Security reforms, Medicare, Medicaid, health care, taxes, defense, other management reforms and political reforms, and we got 75 to 80 percent plus agreement that the issues that we talking about have to be on the table. And it was clearly a center left group, and it was clearly a group that was stoked to be disruptive.

The next day we were at Yale. Not the – not a bastion of conservatism but, we were at Yale, although William F. Buckley was from Yale and we had a more representative group and we got 90 percent plus support. I'm going to kind of bring this to a close, what we've tried to do is look at sense and balls, look at (inaudible) look at our work, that work that's being done by heritage, by the committee – by Brookings Institution, by a variety of organizations.

And we don't endorse a particular plan, I don't think that's appropriate, there is no perfect plan. What we try to do is we try to look at all the different reforms that our out there and decide which ones meet a six prong test and, those are the ones that we expose to the public. And what are those six prongs?

Number one, pro growth. We've got to grow the economy but we can't grow our way out of the problem. Number two, socially equitable. We need a solvent, sustainable, secure social safety net in this country. We need to take care – we need to make sure we don't increase the poverty rate.

Culturally acceptable. It has to envision the size of government, a level of taxation that a majority of the American people with support.

Fourthly, - fifth – fourthly, math. This is the new four letter word, math. It has – you have to have a plan, what are you trying to accomplish. Balance budget, wrong goal. Should be stabilizing debt to GDP at a reasonable sustainable level so if you grow that helps you, if you have fiscal constraint that helps you, that's what we did after World War II. It worked. So we have to have a goal, you have to have plan, it's got to be reasonable assumptions and the math's got to work.

Fifthly, it's got to be politically feasible. You got pass the House. You got to get 60 votes in the Senate unless you use budget reconciliation which Affordable Care Act did. And you have to get the signature of the President of the United States or, be able to override a veto.

If you don't pass all six of those, you've got nothing, you've got nothing. You know and you may get something that could pass five out of the six like the Affordable Care Act but, it will be repealed in large part and replaced, hopefully, in part, because A, it doesn't meet several of the tests including the fact that it passed on the straight party line vote.

By the way, that's on the sixth test, I apologize, I didn't give you six. You've got to get meaningful bipartisan support. And meaningful bipartisan support doesn't mean well I got two Democrats or two Republicans, it means at least 15 percent of the opposition party. If you can't get at least 15 percent of the opposition party, number one it won't be sustained and secondly, the American people won't deem it to be fair.

In conclusion, the people are ahead of the politicians. They know we've got a serious problem. They are willing to accept tough choices on spending and on taxes, including on social insurance programs. Once they know the facts, once they understand that the future of our country and our families is at stake, once they understand that this is not merely an economic issue, is an ethical and a moral issue.

Because we are mortgaging the future of our kids and grandkids at record rates, we're reducing investments in their future at a time that they're going to face a lot tougher competition. They are willing to accept tough choices if it's part of a comprehensive plan that deem to be fair.

That is our hypothesis. That is why we are on the road. We want to make sure that the candidates start focusing on this with substance and solutions. That's why we're going to swing states. They will decide the election and the good news is, is that we're getting a good response. We're starting to get more media pick up on this to leverage the message out.

Last, this is not hopeless. Australia, New Zealand, Canada, Sweden, among others, had serious challenges in the 90s, they rose up to meet those challenges and now they're in much better shape than we are. If they can do it, we can do it. But for it to happen people of influence and means, including every person in this room, needs to play an important role to hold politicians accountable, to hold those especially that take pledges on the right or the left, those

that take pledges that say I won't raise taxes or, I won't renegotiate the Social Security, Medicare promises, I'm here to tell you they're part of the problem, they're not part of the solution.

I'm here to tell you that if we don't end up making meaningful progress in 2013 we could have a debt crisis here. And if we have a debt crisis here, nobody's going to be able to hide. Nobody is going to be able to hide. We can do it. With your help we will do it. I'm happy to answer any questions you may have. Thank you very much.

Please raise your hand. What I'm going to do is we've got microphones. This young lady is first and then we'll alternate sides of the room, that young lady there and then we'll – sir, you'll be after that.

UNIDENTIFIED SPEAKER: Thank you.

UNIDENTIFIED SPEAKER: (inaudible)

UNIDENTIFIED SPEAKER: Oh.

UNIDENTIFIED SPEAKER: (inaudible) to start. This is being recorded and will be on (inaudible), just so you know that (inaudible).

WALKER: So you're waiving your rights, as you speak.

UNIDENTIFIED SPEAKER: Thank you for what you're doing, thank you for your talk. Going back to the beginning of your talk -

WALKER: Yes, ma'am.

UNIDENTIFIED SPEAKER: You said that you believe that the candidate that can make the best case for fixing the economy or getting closer to balancing the budget, the GDP never – to the American people will win. But with less than 50 percent of Americans paying taxes, what makes you think that really is an – of interest to them.

WALKER: Well, first let's talk about the numbers.

Most Americans pay more in payroll taxes than income taxes. If you look at income taxes alone, depending upon the year, 40 to 45 percent of people who file tax returns don't pay income taxes. And that's a problem. You – that's a dangerous disconnect in a democracy, especially when you consider that income taxes fund all, or substantially all, of the constitutional roles in the Federal government.

So one of the things we have to do as part of tax reform is we have to have a more honest discussion about at what level should you not have to pay income taxes. Is it the poverty level or some function of the poverty level? We can't have 40 to 45 percent paying no income taxes.

Now, we need a progressive system, all right? At the same (point in time) I'll be honest to tell you and, this group will be disproportionately affected, we got a problem on the other end. The top 1 percent, the median affected income tax rate is 18.9 percent even though the top effective tax rate is 35. And there's two reasons for that.

One, people who are well off disproportionately benefit from deductions, exceptions, credits, and exclusions. Secondly, most people who are very well off don't make their money in wages, like me, they make their money on dividends and capital gains, which are taxed at 15 percent irrespective of the amount of the money.

So I would respectfully suggest that when we reform the tax system, we have to make it simpler, fairer, more competitive, more equitable, we're going to have to generate more revenues, we're going to have to get more people paying but, we're going to have to deal with the affective rate of our people at the top, but you do that through comprehensive tax reform, not through adding on new alternative minimum taxes or trying to have a class warfare battle on these issues. Yes, ma'am.

UNIDENTIFIED SPEAKER: Could you talk about Simpson Bowles?

WALKER: Yes.

UNIDENTIFIED SPEAKER: It seems that the President backed off of that after it was – the report was produced. And why do you think that was and, do you think that that's a good starting point for discussions, going forward?

WALKER: Well first when I was at the Peterson Foundation, Pete and I and others fought very hard for the President to be able to appoint some type of a commission and, to his credit, he did when the legislation failed. Unfortunately, after they reported he dropped the ball and didn't do anything. Let's talk about the merits of Simpson Bowles.

I think there's a lot of positive things about Simpson Bowles. First they understand the difference between the short term challenge and the structural. Secondly, they understand that everything has to be on the table, social insurance reform, spending cuts and constraint, comprehensive tax reform that'll generate more revenue. You know they know – they note that you've got to have bipartisan support to get something done and sustain it over time. At – their greatest weakness is health care. Their health care reforms do not adequately solve the problem. And if you don't adequately solve the health care problem, you don't solve the problem.

Paul Ryan voted against Simpson Bowles for two reasons. Number one, what people talk about more publically, he thought it was too heavy on taxes. All right? You might need more revenues but he thought it was too heavy on taxes. But the second reason and the more important which gets less coverage, is because the health care proposals in Simpson Bowles are not effective in dealing with those costs. And if you don't deal with health care costs, you don't solve the problem.

So – and I do think it ought to be on the table. A lot of the reforms that we're exposing come from that but, not all of them. Yes. Yes, sir. Wait please, sir, for the microphone. Thank you.

UNIDENTIFIED SPEAKER: You know I've heard Senator Simpson and Mr. Bowles basically saying many of the same arguments. OK? But how do you deal with the political reality of the fact – the fact of the political reality that two thirds of the members of the House ...

WALKER: Yes.

UNIDENTIFIED SPEAKER: - and I don't know how much of the Senate, have taken this anti-tax pledge -

WALKER: Yes.

UNIDENTIFIED SPEAKER: - and will not vote for any kind of a tax increase, whatsoever. And as much as this is a national problem, they are – the far right wing, the Tea Party, if you will, has demonstrated to these people that if you do not hue our line, we will throw you out of office. And the best example most recently is Orrin Hatch who almost got thrown out.

And then I'll sum – I'll finish with this. I remember in the appointment of Simpson Bowles, that committee as you inferred, almost didn't get off the ground in the first place. And the reason why it didn't get off the ground in the first place is the Tea Party had basically convinced people that you couldn't go along with this because tax increases might be on the agenda -

WALKER: Yes, yes -

UNIDENTIFIED SPEAKER: ... and it was only that kind of political pressure that they finally yield and at least appointed a commission. So I mean how do you deal with this political reality that the people that you talk about who have these jobs for life and want them for life -

WALKER: OK.

UNIDENTIFIED SPEAKER: - know that if they do not long along with the party plan, they're going to be thrown out of office?

WALKER: OK.

Well several things. One, I believe that anybody who signs a pledge to a special interest, and that's what this is, on the right or left, that they should be held accountable for that.

So you know frankly you know I think that people who are of means, and of influence, need to start putting pressure on people to rescind these pledges. All right? Rescind them. We're not going to solve the problem if people are making these kinds of special (inaudible).

Now that being said, there's a little poll in that pledge. If you read the pledge what it says and, I believe – I'm against the pledge. But if you read the pledge it says you won't increase marginal tax rates, you won't eliminate deductions, exemptions, credits and exclusions unless it's offset with a reduction in marginal tax rates. All right, fine. What I'm talking about meets all that criteria.

So the question what do you deem to be a tax increase? Is a tax increase a higher percentage of revenues as a percentage of GDP as compared to what it is now? As compared to the historical average of 18.3 percent or as compared to what it's going to be under the current law, absent reform which is 24 percent of GDP and rising by 2035.

In my view the answer is as follows, we need to make government smaller. Now, how do I define that? We're spending at 24 percent of GDP. We can solve this problem meeting all those six prong tests, spending less than 24 percent of GDP, that's making government smaller.

We need to make government more effective but we have to have more revenues than the historical average which is 18.3 but less than where we're headed under current law. And therefore it's possible to be able to do tax reform without technically violating that pledge.

Now Grover Norquist would say, but I don't want any more revenues than 18.3 percent of GDP. Fine. But we're not going to solve the problem. You know what, both parties are responsible for that.

Think about what happened in 2003. Three things happened, individually, irresponsible, collectively reprehensible. Second round of tax cuts we'd already returned to deficits. We invaded a sovereign nation without declaring war, without paying for it. Which by the way I would argue was unconstitutional but, we're not following the Constitution in a number of ways now. And thirdly, Medicare prescription drugs expanded without paying for it, added \$8 trillion of new unfunded promises when Medicare was underfunded 20 trillion. All right? And it's gotten worse since then. All right?

This number and the number that I showed you, \$70.4 trillion, you know what it was in 2000? \$20.4 trillion. It's gone up \$50 trillion bucks in 12 years. So you know look, we're only going to solve it and we need political reforms. We need redistricting reform. We need integrated open primaries. We need campaign finance reform. And we need 12 to 18 year term limits.

So were not just talking fiscal reforms, we're also talking operational reforms, we're also talking political reforms. The first two that I mentioned, California did it in 2010, doesn't take a Constitutional amendment. The second two will take Constitutional amendments, it'll take time, we can't wait for that because the fuse is lit and we don't have that much time.

Other questions. Back here, sir, then here. And then I'll come here sir, I'm sorry. Yes.

UNIDENTIFIED SPEAKER: Right.

WALKER: Yes (inaudible).

UNIDENTIFIED SPEAKER: Question about the debt to GDP. When I had a chance – and what we talked about earlier in my – the group of 30, to look at debt to GDP what struck me is not only adding as you had done the U.S. debt statement – or – but this state and city, but the unfunded pension liabilities. And then the more I looked at that and I found the discount rates that they use are (inaudible) ...

WALKER: Unreasonable.

UNIDENTIFIED SPEAKER: ... are just – I mean it's almost fraud and then you get bigger numbers. And then if you look at debt to GDP, isn't the better – well, not the better way but the more comprehensive way, because the GDP has to support all debt, you have to add in all these unfunded things, put a proper discount rate, and then actually add in commercial business debt and everything else. Because that 15 trillion GDP has to support the entire thing which goes to a very fundamental thing of leverage, to deal with the problem, to understand how you then back yourself -

WALKER: (inaudible).

UNIDENTIFIED SPEAKER: - out of it.

WALKER: Several things. First, I'm trying to use statistics that allow for an apples to apples comparison to other major industrialized nations based on international monetary fund data. And the best way to do that is federal, state and local public debt and then add on what we owe Social Security and Medicare because nobody else has anything like that.

You are correct to point out that we have huge off balance sheet obligations at the federal, state and local level. And there are common denominators. There are retirement obligations. There pension, they're retiree health care. We also have outdated tax systems at the federal, state and local level. All right? And we have interdependency, interconnectivity.

You're also right to point out that we have leverage problems with regard to you know the business sector and individuals.

My only point is, is I'm trying to make the case with regard to government fiscal responsibility. This is focused primarily on the federal but, I will tell you we also talk about state. And in that regard New York is around number 29 out of 50, I think. I live in Connecticut which believe it or not is the worst state in the union in total liabilities and unfunded promises per taxpayer.

And the reason it is, is because of what you pointed out, the off balance sheet obligations. And that's using the assumptions that they're using which in many cases are not credible and, therefore, the problem's actually worse. OK.

Who'd I point to – who has the microphone? Yes. You'll be third, I apologize. Go ahead. The microphone over here, please. Next. OK. Yes, sir. Go ahead.

UNIDENTIFIED SPEAKER: You know this is a very sobering and – conversation. But as you point out it's not exactly new news and, you say that 2013 is a key year. 2013 kicks off with the so called fiscal cliff in your view do the components of the fiscal cliff, I'm thinking specifically sequestration, but the whole situation, they lead to a situation that would induce people to focus on this or, to run away even more?

WALKER: Well we're going to have to do something about the fiscal cliff because the consensus of economist you know of all different political stripes and ideological backgrounds is that if we allow all the tax cuts to expire, if we allow the sequestration to take place, we'll be back in recession. All right? And that's not, obviously, a desirable thing.

My view is you have to get realistic. What can happen in a lame duck session? There's a reason it's called a lame duck session. OK? And I think what we have to take the fiscal cliff and divide into three categories. What are some things that should not be extended at all or, dramatically revised? And I'll give you an example.

The payroll tax cut, the 2 percent payroll tax cut. To me that's a total waste of money. What are we trying to do, we're trying to stimulate employment. So we give a 2 percent payroll tax cut across the board irrespective of income level? You know if you want to do something to incent employers to hire under a payroll tax cut, then why wouldn't you give it to the employer

with regard to people that they're hiring, rather than to everybody, irrespective of their income even though they've already got a job. OK?

Secondly, unemployment benefits, I think we shouldn't extend them more than 99 weeks. OK. But a lot of the big ticket stuff you know the across the board tax rate issues, the sequestration,

I think what's going to happen there is they're going to delay the implementation of that for 9 months to a year, with the plan to do a grand bargain along the lines of what I'm talking about. Budget controls, social insurance reform, comprehensive tax reform, and a more intelligent approach to deal with other spending than across the board cuts. You don't need a human being to figure out doing things in an across the board basis.

But realistically the tough decisions are not going to be made until 2013 and why do I say that? A, the committees haven't done their work. All right? And B, the American people haven't been engaged adequately. Simpson Bowles did great work but they did virtually nothing outside the beltway. You have to get ahead of the American people on this.

Here's the good news, their smarter than the politicians realize, they get it, they're starved for three things, truth, leadership and solutions. Yes, sir.

UNIDENTIFIED SPEAKER: Yes, (inaudible). The successful countries you mentioned all have very high value added taxes which tax consumption without discouraging entrepreneurial activity.

WALKER: Right.

UNIDENTIFIED SPEAKER: Isn't time – isn't time for America to have – it – to institute value added taxes the way every European country does?

WALKER: Well, there are two things that we don't do that other major industrial nations do. One, value added tax and, I'll come back to that. And secondly, we don't have a budget for health care. Nobody else is stupid enough to do that. OK. So those are some things we got to learn.

On the value added tax, in my view we ought to move towards – more towards consumption taxation. There are ways to do progressive consumption taxes, there are ways to do that. Value added ought to be one of the things that would - ought be on the table as part of comprehensive tax reform with a big footnote. And that is only after you have social insurance reforms that are agreed to and only after you have tough budget controls in place that will make sure that this new revenue stream is not used as a way to try to further grow government. I think from the standpoint of the impact on the economy, the impact on savings and investment, it's a positive thing.

I think to diversify our revenue streams, it's a positive thing, but you have to do it – you have to design it and implement it properly and you have to do it after you've started restructuring some of these social insurance obligations and after you have tough budget controls in place to make sure that that money just won't be spent to expand government. Next question. Yes, sir.

UNIDENTIFIED SPEAKER: I share your optimism about the American people and I resonate with the positive examples of Canada and Sweden and New Zealand and Australia in solving their problems. But if you look at most of the countries in Europe, they've had mass demonstrations, many are violent, very violent and frequent and, while the United States has seen this shirt in the laundry and hasn't had that social unrest, are you concerned about social sustainability and may (inaudible) -

WALKER: Yes.

UNIDENTIFIED SPEAKER: - that these solutions are not achieved, what will happen?

WALKER: Well I'm concerned about domestic tranquility in a number of ways. Number one, the truth is there are growing gaps between the haves and have nots in this country. Income, wealth, skills, knowledge, et cetera. The truth is that if we don't end up putting our finances in order, we could have - we could experience here what Greece experienced. We've got more time we're the best looking horse in the glue factory. Glue factory's not a good place to be. But we have more time.

But think about what happened in Greece. Now, we're not Greece but think about happened in Greece. They lied to their lenders, they lied to their people. When the lenders realized that they had been lied to, things changed very quickly. And then they had to implement you know austerity, quickly. They had to do something on the revenue side, quickly. The people had not been prepared and it resulted in demonstrations in the street. All right? Let's get ahead of it.

You know one of the things I learned in the private sector and the public sector is you know if you do a transformational change, the first thing you have to do is you have to make sure a majority of the people realize you have a problem and that doing nothing is not an option. And that the sooner you act the better off you are. That's what we're trying to do. Build the burning platform but - because the people are ahead of the politicians. But people of influence and wealth bear a disproportionate burden and they have a disproportionate opportunity here. And that's what has to happen. I mean you need to be part of the solution.

UNIDENTIFIED SPEAKER: (inaudible) be your last -

WALKER: Last question.

UNIDENTIFIED SPEAKER: Frank (inaudible) from Bloomberg (inaudible). What about Fannie Mae and Freddie Mac. Where do they stand in your accounting of U.S. off balance sheet?

WALKER: Well, we have not consolidated Fannie Mae and Freddie Mac yet into the financial statements of the U.S. government. I'm going to be interested to see whether or not they do this year. Under current generally accepted accounting principles as long as it's a temporary action you don't have to.

But then we can also debate whether or not they provided an adequate reserve for losses associated with Fannie Mae and Freddie Mac. OK? And I think - I would also note that when you look at Dodd-Frank, they don't deal with Fannie Mae and Freddie Mac. We're leaving that out there.

And so that's a clear issue that we have to come to grips with irrespective of the accounting and financial reporting aspect, we need to decide how are we going to reform Fannie and Freddie because they really haven't been touched yet. Thank you very much.