

I.O.U.S.A.

**Addison Wiggin
and Kate Incontrera
with Dorianne Perrucci**

Foreword by David Walker



WILEY

John Wiley & Sons, Inc.

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*For Jennifer, Meritt, August, and Elizabeth,
who make all the late-night pacing worthwhile*

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Foreword

This book will provide you with information on two journeys based on the critically acclaimed documentary *I.O.U.S.A.* The first is a journey through time in which you learn about various key events relating to our country's financial and other affairs since the beginning of the American republic in 1789. This journey also looks forward to what our future would look like in 2040 under a do-nothing or let-the-chips-ride scenario. During this journey you will also learn about four key deficits that threaten America's and our families' futures and what both Washington policy makers and you should do about them.

The second journey follows the efforts of various participants, including myself, in the Fiscal Wake-Up Tour across the United States. As of June 2008, the Tour had traveled to over half the states and about 40 cities. Participants in the Tour state the facts and speak the truth directly to the American people about our nation's true financial condition and fiscal future. They also highlight the failure of Washington policy makers to address a range of large, known, and growing challenges that threaten our future.

The documentary is based in large part on a "Four Deficits" speech that I have given on a number of occasions on the Fiscal Wake-Up Tour, which also draws certain lessons from the fall of Rome, the longest-surviving republic in human history. These and the book *Empire of Debt* (Wiley, 2006), written by Bill Bonner and Addison Wiggin, provide a solid foundation for the documentary's message. These messages are reinforced by a solid cast of bipartisan characters from the political arena. And we hear from three major sectors of the U.S. economy: those

who save and invest; those who choose not to save; and those for whom saving is very difficult.

This Foreword, however, covers my own personal journey, including how it evolved during the shooting of the film over the past two years. My journey continues and will until leaders whom we've sent to Washington start focusing on the nation's future rather than their own present need to get reelected and begin to make tough choices. Our leaders need to deliver some real results for the American people. The alternative is unthinkable for many people.

My personal journey started on October 2, 1951, in Birmingham, Alabama. I was the first of three sons of David S. Walker and Dorothy West Walker. As a child I grew up in several towns in Alabama and Florida. In my early years we rarely traveled outside our hometowns and never outside our home states.

I went to college at Jacksonville University in Jacksonville, Florida, where I met my wife Mary. We were married at the end of my sophomore year. In fact, at the early age of 19, we eloped to South Carolina. I subsequently graduated with a B.S. degree in accounting. Thirty-seven years and many moves later, which included homes in Florida, Georgia, Texas, and Virginia, Mary and I are still married. We now have two children and three grandchildren. So far we've beaten the odds associated with marrying at such a young age.

My professional career started in public accounting with Price Waterhouse and Company. After earning my certified public accountant (CPA) certificate, I changed firms and joined Coopers and Lybrand. Later, I became involved in the recruiting and human resource consulting business before doing public service in the federal government. My career has included serving as head of a global service line for Arthur Andersen LLP before the firm experienced the problems that led to its downfall.

My federal government career started in 1983 with the Pension Benefit Guaranty Corporation and later the Labor

Department. I've had the privilege to lead three federal government agencies, all professional services organizations. Most recently I served as Comptroller General of the United States and head of the U.S. Government Accountability Office (GAO) from 1998 to 2008. I also served as a Public Trustee for the Social Security and Medicare Trust Funds (1990–1995) while I was a partner with Arthur Andersen.

I have been fortunate to receive Presidential appointments from Ronald Reagan, George Herbert Walker Bush (41), and Bill Clinton, each time being confirmed unanimously by the United States Senate. There aren't many people who can say that. In fact, I may be the only person who can.

During my more than 35-year professional career I have spent 20 years in the private sector and 15 years with the federal government. I have been a transformational change agent in many of these positions, so far with very positive results. Hopefully, that will continue.

Other than my professional background, there are things about me and interests that have had a strong influence on my career and actions. For example, my Walker line came to America in the 1600s and initially settled in Virginia. I have several ancestors who fought, and at least one who died, during the American Revolution. I am a student of history and a member of the Sons of the American Revolution. Mary and I live in Mt. Vernon Farms, Virginia, on land that was once owned by George Washington.

Despite my family's long history in America, to my knowledge, I am only the second Walker in my direct line to graduate from college. Most of my ancestors prior to my father worked in the mines, in mills, on farms, or as ministers.

While we rarely traveled outside the state in my early years, I have been fortunate to travel to all 50 states and about 90 countries to date. And, while I am proud to be an American, I also realize that there are many issues that are global in nature and that we must partner for progress with other countries to help make the world a better and safer place. Furthermore, while the

United States is number one in many things, my experience has caused me to realize that we are not number one in all things. In fact, we lag many other industrialized nations in connection with a range of key outcome-based indicators—public finance, education, health care, savings, and research and development, to name a few.

From a political perspective, early in life I was a southern Democrat. Later I was one of the first in Northern Florida who changed my party registration to become a Republican. In 1997, I officially became a political independent, reflecting my frustration with both parties. As a candidate for the position of Comptroller General of the United States, I believed I should be independent both in form and in substance.

I consider myself an American who is an internationalist. I was very involved in international policy and accountability issues during my tenure as Comptroller General. My interest in international issues continues and I was recently fortunate to be elected as the first chairman of the Independent Audit Advisory Committee (IAAC) of the United Nations.

Enough about my background—what about my involvement in the documentary? My involvement began with reading a book. As a history buff and a person interested in financial matters, I decided to buy the book *Empire of Debt* on one of my many trips into a bookstore before boarding a flight. On this occasion, Mary and I were flying to Phoenix to visit our son Andy, our daughter-in-law Meghan, and their family.

During my career, I have become a fast reader and prolific writer. As a result, I was able to speed-read the book on the long flight west. I enjoyed the book, especially the analogies to past history. I have used the analogies in many of my speeches, including frequent references to the challenges that we now face that led to Rome's downfall. At the same time, while I enjoyed the book, I did not agree with everything in it.

When Mary and I arrived at Andy and Meghan's home we had the opportunity to engage in a time-honored tradition for grandparents: reading to our then granddaughter, Grace. She

is a very bright young girl. While I took my turn and read her a children's book, as somewhat of a joke, I also read her a single paragraph out of *Empire of Debt*. The paragraph discussed how our current federal policies were mortgaging our future. When I was done, I asked Grace what she thought. To my shock and amazement she said, "Devastating, Granddaddy!" She was only four years old at the time!

If a four-year-old can get it, then why is so hard for a vast majority of current federal elected officials? Are they in denial or just happy to kick the can down the road while they leave key sustainability challenges for someone else?

In large part, I believe the greatest deficit that the United States has right now is a leadership deficit. You'll hear more about this and our nation's other deficits in this book and in the film.

Subsequent to our Phoenix trip, my office at the GAO was contacted by the film crew who requested to meet with me about a documentary they were planning to do on federal deficits and debt. Since I had done a number of electronic interviews and was obviously interested in the topic, I agreed.

The meeting was attended by Patrick Creadon, Addison Wiggin, Kate Incontrera, and others from Agora Financial. They provided an overview of the planned documentary, and when they had finished I said, "Does this have anything to do with the book *Empire of Debt*?" Addison and Patrick looked at each other and hesitated to speak. Evidently, they didn't know whether I liked the book or not. Once they acknowledge that it did, I noted that I had read it and liked it. After that point, things went well and it was the beginning of a great adventure.

While the book was the initial basis for the documentary, over time it evolved to concentrate more on our efforts in the Fiscal Wake-Up Tour. That Tour is coordinated by the nonpartisan Concord Coalition and it also involves scholars from the Brookings Institution, the Heritage Foundation, and me. Successful documentaries, Patrick explained to me early on, usually have one or more persons to focus on in order to

help personalize the film. I was fortunate to be selected as one such person.

Patrick, Addison, and their crew followed the Tour to several locations across America, including Omaha, Nebraska; Des Moines, Iowa; Manchester, New Hampshire; Los Angeles, California; and Madison, Wisconsin. They also filmed many other subjects

The Fiscal Wake-Up Tour also took on extra notoriety after the CBS *60 Minutes* program decided to do a segment on it. The program helped increase attendance at our events outside Washington as well as the attention paid to our efforts inside Washington's Beltway. The *60 Minutes* segment also paved the way for a timely introduction to our work in the documentary.

We found in our many Town Hall meetings that the American people were smarter than many politicians realized. Once you state the facts and speak the truth, people get the message. At the same time, the American people are distrustful of Washington. They're starved for two things: truth and leadership.

In November 2007, after many Tour stops, I was fortunate to be recognized as the Concord Coalition's Economic Patriot of the Year. Prior recipients included former president of the United States Bill Clinton, former Treasury secretary Bob Rubin, and former chairman of the Federal Reserve Paul Volcker. Little did I know that in accepting that award, my career path would change once again.

During that evening I made a brief yet substantive acceptance speech. I also had the opportunity to participate in a substantive panel discussion with Rubin, Volcker, former senators Rudman and Kerrey, and the president of the Concord Coalition, Pete Peterson. I must have done all right because about a week later, I received a call from Pete Peterson.

Pete called under the pretense that he wanted my input on his plans to start a new foundation dedicated to trying to address the budget and other key sustainability challenges. It didn't take long before his real purpose became clear: He wanted me to head his new foundation.

Needless to say, I was flattered and surprised. And yet I was very happy with my current job and the work I was doing at GAO. While I noted that fact and raised a number of reasons why I felt it probably did not make sense for me to change, Pete was persistent. A couple of months of discussion later, I decided to accept his offer.

My primary reason for deciding to accept was that I became convinced that at my new post I would be able to do certain things to help achieve changes that I could not do as Comptroller General. As the president and CEO of the Peterson Foundation I would be able to advocate specific policy solutions, build strong and overt coalitions for change, and stimulate and support the various grassroots efforts designed to pressure Washington policy makers to make tough choices—and to hold them accountable if they failed to act.

I was also interested in working in partnership with Pete, who is a great American and in many ways a case study of the American dream come true.

As I said when asked about leaving my position as Comptroller General and head of the GAO, “Committed generals do not leave the fight, although sometimes they change their position on the battlefield.” I said that we aim to “keep America strong and the American dream alive by promoting responsibility and accountability today in order to provide more opportunity tomorrow.”

After joining the Foundation, I proposed and the directors agreed that the Foundation should purchase the documentary from Agora and finance its distribution. We are excited about its message and feel strongly that the time is right for it to be heard.

We look forward to the theatrical release of the film and to its later premier on television. We also plan to take other steps to make sure that it is ultimately seen by as many people as possible.

In my view, it is time for elected officials to start making tough policy choices in connection with our nation’s budget, entitlement programs, spending policies, and tax policies.

Our next president needs to make fiscal responsibility and intergenerational equity a priority. If he does, and if he resists making dumb promises, while using the bully pulpit of the presidency and working on a bipartisan basis to achieve real and lasting change, we can successfully meet this challenge.

If this happens, and a few bipartisan leaders join in the fight, we can make sure that our future is better than our past and that the United States is the first republic to stand the test of time. These are goals worth fighting for. “We the People” can turn things around. If you agree, then join the fight for America’s future at www.pgpf.org. You, your country, and your family will be glad that you did.

Honorable David M. Walker
President and CEO, Peter G. Peterson Foundation
Former Comptroller General of the United States

I.O.U.S.A. Cast of Characters

CAST

Hon. David Walker: Former U.S. Comptroller General and President and CEO of the Peter G. Peterson Foundation.

Robert Bixby: Executive Director of the Concord Coalition.

Sen. Kent Conrad (D-ND): Chairman of the Senate Budget Committee.

Sen. Judd Gregg (R-NH): Ranking member, Senate Budget Committee.

Alice Rivlin: The first director of the Congressional Budget Office and on the team that balanced the budget during the Clinton administration.

William Bonner: Bestselling author and founder and president of Agora, Inc., a financial research and publishing group.

The Concerned Youth of America: A grassroots, non-partisan organization whose goal is to increase awareness of the state of the U.S.'s finances among the youth of the nation.

Robert Rubin: 70th Secretary of the U.S. Treasury (1995–1999), one of the key players in the Clinton administration's balanced budget.

Peter G. Peterson: Co-founded the Concord Coalition in 1992, and founder of the Peter G. Peterson Foundation.

Paul Volcker: Chairman of the Federal Reserve Board (1979–1987), and best known for battling the inflation of the early 1980s.

Hon. Ron Paul: Outspoken proponent of "free market" economics and critic of the Federal Reserve System.

Alan Greenspan: Chairman of the Federal Board (1987–2006, and still seen as a leading authority on U.S. economic and monetary policy.

Warren Buffett: CEO of Berkshire Hathaway, and regarded as one of the world's greatest stock market investors.

James Areddy: Correspondent for the *Wall Street Journal* in Shanghai, China.

Paul O'Neill: 72nd Secretary of the U.S. Treasury, who was fired after 23 months, after having a 'difference of opinions' about deficits with Vice President Cheney.

Art Laffer: Former member of President Reagan's Economic Policy Board. He is best known for popularizing his Laffer curve.

CREW

Addison Wiggin, Executive Producer

Patrick Creadon, Director

Christine O'Malley, Producer

Sarah Gibson, Producer

Doug Blush, Editor

Brian Oakes, Graphic Design

Theodore James, Associate Producer

Kate Incontrera, Associate Producer

Acknowledgments

It turns out that reverse engineering a documentary film into a companion book is not as easy as it might sound. Creatively, you can convey a lot of information with images, music, and dialogue in a movie that require much more background and setup in a book. There are a number of people we want to thank for allowing us to take six weeks in the summer of 2008 to wrap our heads around two and half years of travel, filming, interviews, and research.

First, we want to thank Ian Mathias and Greg Kadajski for holding down the fort in Agora Financial's *5 Min. Forecast* and *The Daily Reckoning*, respectively. Writing, editing, and publishing daily stock market and economic commentary is a daunting task when you're working as a team. Going it alone is much more so. Both have done an admirable job. Thanks to all the folks who work so hard at Agora Financial, including but not limited to Joseph Schriefer, Mark O'Dell, Greg Grillot, Chris Mayer, Eric Fry, Michelle Nickels, John Forde, Chad Barrett, and Mike Pizzo, for relieving us of critical duty during the writing of the book, and to Bruce Robertson for helping negotiate all the paperwork and the labyrinthine accounting process.

We'd like to thank Bill Bonner, too, not just for his insights in *The Daily Reckoning*, but for biting his tongue and giving us the freedom to explore the documentary project at will. Thanks to Matt Turner, Myles Norin, and Bob Compton for supporting the project legally and financially, and to Scott Weiser and Doug Nevin for ably representing our interests in the film acquisition by the Peter G. Peterson Foundation.

Thank you to David Walker for taking such an interest in our work, for helping us get the story straight on the nation's four deficits, and for providing the Foreword to this companion piece. It's worth noting that while David wrote the Foreword to this book and his consultation was helpful in piecing the script together, the words in this book are our own and do not necessarily represent the views and/or opinions advocated by the Peter G. Peterson Foundation. In addition, we'd like to thank Elizabeth Wilner at the Peterson Foundation. Thanks to Bob Bixby and all the folks at the Concord Coalition for the ideas and insights they contributed to the film and subsequently the book.

A big thank-you goes to the amazing crew that put together the movie: Patrick Creadon, the director; Christine O'Malley, Sarah Gibson, and Theodore James, producers extraordinaire; Brian Oakes, who designed all the graphics you see in the film and in this book; and our editor, Doug Blush. We know this subject can be extremely difficult, but this group of talented individuals tackled this project wholeheartedly. We are very grateful for the unique vision and insights each person brought to the table to help shape the story of *I.O.U.S.A.* We would also like to thank Jon Carnes and the One Horizon Foundation for getting the film from just an idea we were batting around to a reality, and to Roadside Attractions for getting *I.O.U.S.A.* out into the public eye. A big thank-you to Dorianne Perrucci and the team over at John Wiley & Sons, especially Debra Englander, Joan O'Neill, and Kelly O'Connor, for all of their hard work on this book and putting up with our unique understanding of deadlines.

We would like to thank the Wiggins and Incontrera families, as well as Craig Stouffer, for their continued support of this project (and of us). Thanks to our friends and co-workers for putting up with our hectic schedules, being a sounding board when needed, and even providing us with a place to write (thanks, Kyle!).

Last, we would like to thank the distinguished group of experts who allowed us to interrupt their busy lives to sit down with us to be interviewed for *I.O.U.S.A.*:

- Alice Rivlin
- William Bonner
- Robert Rubin
- Peter G. Peterson
- Ron Paul
- Paul Volcker
- Alan Greenspan
- Warren Buffett
- James Areddy
- Paul O’Neill
- Arthur Laffer
- Steve Forbes

Part One

THE MISSION





THE MISSION

Deficit reduction cannot be described as a sexy topic. Unfortunately, it is hard to break through with an unsexy message. It comes across as kind of like taking a cold shower. We come along after the sexy messages and cool people off.

—Bob Bixby, executive director,
Concord Coalition, in the film *I.O.U.S.A.*

The *I.O.U.S.A.* project has been one long, cold shower.

As Bob Bixby put it, it's hard to break through with an unsexy message. But we've been trying. The film and the book are the culmination of nearly five years of work. When we began, the potential difficulties of a growing national debt and a struggling currency—both abetted by negligence on the part of the nation's policy makers—were far from the media headlines.

Words like *subprime*, *mortgage-backed securities*, and *inflation* barely piqued the interest of the average American. Gasoline and food prices appeared to be stable. The stock market appeared to have recovered from the tech bust and was on its way to new record highs. It looked like house prices would be going up forever. Interest rates were dropping. Despite the wars in Iraq and Afghanistan, Americans were generally positive about the outlook for the economy and their own prospects within it.

But we had our suspicions.

Along with much of the Western world, the United States is entering a demographic transformation to an older society. But we're doing so at a bad time. Health care costs are rising dramatically. The nation has a falling savings rate. Together they make a very bad combination for the economy. But, as with any extravaganza, it's hard to get people to see that the party's over.



In the fall of 2005, after two years of research and writing, Bill Bonner and I published *Empire of Debt*, a look at the history of rising debt in all levels of American society. The federal government had been, and still is, running historic deficits in the federal budget. The national debt was growing at a pace never seen in the nation's history. While the Bush administration waged increasingly unpopular wars overseas, Congress—and, by extension, the American people—was depending more and more on foreign lenders and tapping the Social Security and Medicare trust funds to pay its bills. The national savings rate was about to go negative. And the current account balance—the nation's balance sheet with the rest of the world—was entering historically negative territory as well.

On the surface, the stock market and housing were growing nicely, indeed. Underneath, a review of the numbers told an entirely different story.

We didn't know for sure, but suspected the mortgage market was likely to show the first cracks of a system under stress. We forecasted an implosion in that market and an ensuing recession led by a slowdown in housing, which so many Americans had begun to rely on as their principal source of wealth. As such, we thought it would be a good idea, if a tad impertinent, to send the book *Empire of Debt* to all the members of Congress at their home offices. We sent a copy to the Federal Reserve and another to the White House. At the time, we were under the impression no one in Washington was paying attention. As long as U.S. dollars were rolling off the presses at the Bureau of Engraving and Printing, the record seemed to show no one was inclined to worry.

One serendipitous moment would prove us wrong.

On November 14, 2005, the very day we were stuffing copies of the book into manila envelopes, *USAToday* ran a cover story featuring a press conference that David Walker, then comptroller general of the United States, had given before the National Press Club.

"The United States can be likened to Rome before the fall of the empire. Its financial condition is 'worse than advertised,'" the newspaper said, quoting Walker. "It has a 'broken business model.' It faces deficits in its budgets, its balance of payments (the trade deficit), its savings—and its leadership." That we were mailing a book which effectively drew the same analogy seemed like more than a small coincidence. Little did we know how important Mr. Walker's list of "four deficits" would become to this project. As you'll see, they would provide both the context and framework we were looking for to help bring a difficult, complex, and unsexy message to a wider audience.



Before we even had a title for *Empire of Debt*, I got snowed in for several days doing research at Brad and Julie Wiggin's