

"I.O.U.S.A. LIVE with Warren Buffett, Pete Peterson and Dave Walker"

PANEL DISCUSSION moderated by CNBC's Becky Quick

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Tonight's panelist will comprise of five of America's most notable financial leaders and policy experts, Warren Buffett, CEO of Berkshire Hathaway; William Niskanen, chairman of the CATO Institute; Bill Novelli, CEO of AARP; Pete Peterson, senior chairman of The Blackstone Group and chairman of the Peter G. Peterson Foundation; and Dave Walker, president & CEO of the Peter G. Peterson Foundation and former U.S. Comptroller General. Becky Quick of CNBC will be asking the panelist questions which were submitted previously by the public.

BQ:

20:30:56:00

All right, good evening, everybody. You've seen

the film. It wasn't originally, as we said, billed as a horror film. But-- as you saw right there at the-- the end-- a pretty big number that was added to the deficit right off of the top. What we'd like to do tonight is talk about everything we saw here and get to some of your questions as well. But Dave Walker, I'd like to start off with you tonight just to kick things off. We've been listening to this and we've seen this, but-- we've seen big deficits in the past. Why do you think that this time is different?

DW:

20:31:24:00

Well, first, because we've had larger deficits (UNINTEL) the economy in the past. But, frankly, they were under different circumstances. And in those cases, like at the end of World War II, we owed it to ourselves. Now, we increasingly owe-- increasingly owe it to foreign lenders. And the problem is not today. The problem is where we're headed. We're headed to unprecedented new levels of debt. And that's what we need to recognize. And we need to start soon to address that.

BQ:

20:31:50:00 Mr. Peterson, do you think if-- if measures were taken today that this is something that could be put off entirely?

PETER PETERSON:

20:31:56:00 If what was done--

20:31:56:00 (OVERTALK)

BQ:

20:31:57:00 If these measure-- if measures were taken today, do you think that this worst-case scenario, is that something that could be avoided?

PETER PETERSON:

20:32:04:00 I-- I don't think there's any question because this country has a lot of great strength that it would make a huge difference if we could avoid these problems. So-- I think the problem is at bottom not about the numbers. Left, right, and center agree on the numbers. The problem about getting the public understanding and the political will to do something about it. And this foundation is devoted entirely to the future in doing something about it.

BQ:

20:32:36:00

Mr. Niskanen-- this is something that the Cato Institute (PH) has been fighting for many, many years, though. We've been told in the past that if we don't do something immediately-- we will-- we're on the-- the verge of destruction. And that's something the Cato Institute's been saying for close to 30 years at this point. Why-- what do you think needs to be right now?

MR. NISKANEN:

20:32:54:00

Well, we need to acknowledge that these problems are huge and that they have to be addressed. If they are not addressed, the amount of the debt outstanding-- including the implicit debt for Social Security and Medicare, will increase by several hundred billion dollars a year and overwhelm us. Now, briefly I think that the two types of solutions we need are-- increase the age for full retirement benefits slowly and with-- with-- with notice, with warning.

20:33:22:00

That's a hard thing for Americans to do. But--

we're living longer, and we're living younger longer which is the key. And we ought to be thinking of working until age 70 or more rather than the expectation of-- of retiring at age 65. Second, for Medicare, I think what we have to do is to income test the deductible on Medicare so that-- low-income people pay-- nothing up to a s- - certain amount and high-income people pay a lot more out of their own pocket before they reach that certain amount.

20:33:56:00

These are s-- the starts on-- the kinds of reforms that we need. Now, the Cato Institute, in addition, is-- has-- proposed that half of our Social Security taxes be allowed-- people be allowed to take half of their Social Security taxes and put it in a private fund rather than into Social Security. That will lead to a higher return, somewhat more risky return, but a good bit higher return than the return on Social Security.

20:34:24:00

And it would correct some of the problems of the biases in our Social Security system. Our Social Security system is biased against young people. It's biased against (UNINTEL) families. It's biased against-- groups with the expectation of a shorter life than other people. Now, it-- the only way to avoid those biases is to privatize as much of the Social Security system as we're prepared to do.

BQ:

20:34:49:00

Mr. Novelli, how does something like the idea of working until you're 70 go over with your membership at the AARP?

MR. NOVELLI:

20:34:56:00

Well, first of all, I'd like to say that-- I think this is an absolutely terrific film. And it lays out the problems. It lays out the crisis, if you will, I think in a very dramatic and understandable way. When you asked earlier are there things that could be done now, there absolutely are.

20:35:12:00

There are terrific policy ideas on the table. We can fix Social Security pretty quickly. We can-- we can stop some of the really rising-- healthcare costs that are plaguing our country. We can help people to save by putting payroll deduction opportunities that work for people around the country. There are lots of things we can do.

20:35:33:00

As far as working longer, people are working longer now. The age of-- of work for people is going up. And so this is a good thing. Everything needs to be on the table. The problem we face really is that fourth thing that Dave talked about, which is the crisis of leadership. We don't have the leadership. We have political partisanship. We have to do something about that.

BQ:

20:35:58:00

All right. Mr. Buffett, you've-- you've seen some of the worst-case scenarios here. Should people go home and have nightmares tonight?

WARREN BUFFETT:

20:36:04:00

Oh, (UNINTEL). (LAUGHTER) I'll be the token Pollyanna here. (LAUGHTER) The-- there's no question that the people in this audience, their children will live better than they do and their grandchildren will live better than their-- their children. I mean, this-- this is a marvelous economy. It's a little like the situation in-- in-- in investments. I-- I try to buy stock in businesses that are so wonderful that an idiot can run them-- because sooner or later one will. And-- (LAUGHTER) (APPLAUSE) maybe even the present management.

20:36:43:00

But ruling that aside, the-- but our country's like that. We have a-- it's a wonderful country and-- (LAUGHTER) (APPLAUSE) in-- in the 20th century, the 20th century we had the greatest depression, you know, man can almost imagine. We had two world wars. We had a flu epidemic. We had a President resign.

20:37:09:00

We-- we had stagflation and-- in the oil embargo in the '70s. We had-- we had all kinds of problems, and we'll have them again. But during that period, the average American had a seven (UNINTEL) one improvement in his real standard of living. I mean, the-- the genius of the American system in unleashing the potentials of individuals, who could have dreamt when we talked back in 1982 of how the Germans and the Japanese were gonna take over manufacturing, who dreamt about Google or who dreamt about Microsoft?

20:37:39:00

And-- we added since 1982, we've added 25 million plus jobs in this country. We are now exporting 12 percent of our GDP, which was five percent of our GP in 19-- GDP in 1970. So the-- the world loves our-- our-- we will have a larger pie. Now, we'll have people fighting over who gets that pie. I mean, there's no question about it.

20:38:01:00

And we've made certain promises that promise away a portion of the pie. But the wonderful thing is

that the pie gets larger, even if one percent a year real productivity growth per capita, we double the GDP in-- in per capita in real terms. And that's 75 years when the Social Security projections go up. So even though seniors may get more of the pie, the pie will grow enough so that everybody will get more of the pie. And-- I-- I'm not pessimistic at all on America. It-- it has not paid to sell America short since 1776. And the time to start is not 2008.

BQ:

20:38:34:00

Okay. (APPLAUSE) We've billed this as a town hall and we do have plenty of questions from people here in the audience and from people who have written in over the internet. So we'd like to get to some of those questions. And let's start out with one right here in house. Darrell Hanson is here. And Darrell's got a question tonight.

DARRELL HANSON:

20:38:59:00

My question is, is in a consumer economy such as ours, which we live in-- it's all well and good

to say that we really need to live within our means. But what if everybody actually did that? That wouldn't be such a great place to be, would it? Would we-- would you want to be the President of that country?

BQ:

20:39:22:00

David Walker, as-- the nation's former top auditor, why don't you tell us about what that might mean?

DW:

20:39:29:00

Well, quite frankly, for most of the years that Warren talk-- talked about since 1789 Americans were great at saving. We invested in our future. We owed it to ourselves to the extent that we had that. And we did-- did pretty darn well. One can't debate that. As Alan Greenspan said, without savings there is no future. With savings comes investment, comes research and development, comes im-- improvement and-- and innovation, productivity increases, additional economic growth, enhance our competitive posture, improve our standard of living. With the type of savings

rate that we have today, those are at risk in the future to varying degrees.

WARREN BUFFETT:

20:40:13:00

And it might be pointed out, (COUGHING) Becky, is that savings many years ago went into steel plants, auto plants, aluminum, whatever it may be. If you look at some of the industries where we're exporting to the world and-- and become enormous factors for this country, Microsoft, Google, eBay, they take no capital. I mean, they're-- they are-- they use human capital and intelligence. And-- I don't know of capital projects that make sense that are going unfunded now. I mean, I-- you know, we're looking for them. Pete's looking for them. And-- we are funding the things that make sense in this country in my view.

BQ:

20:40:55:00

Mr. Niskanen, is it something you worry about?

MR. NISKANEN:

20:40:57:00

Yes, I worry much about it. But the first challenge here is to make sure that our political

leaders acknowledge the problem. The second thing they have to do is be prepared to deal across party lines to solve the problem. We're not gonna get major reforms on a single-party basis.

20:41:17:00

A-- a reform will not survive on a single-party basis. So we have to get the political leadership to acknowledge the problem. We have to expose them to proposals coming from all over the country about how we address the problem and then-- be willing to deal across party lines to solve the problem. Now, the savings problem is just an example. Americans savings rates I think are-- are unusually low for a couple of reasons. One is that our tax system is biased against savings.

20:41:47:00

We tax the savings when they're made. And then we tax the returns from the savings after the-- when the returns are come-- coming in. Second, we have so much insured people against losses in

their life that they have much less incentive to--
- to insure themselves against losses for their
medical disabilities or being out of a job or
whatever. Both in the spending and the tax side
of the federal budget, we have contributed to
the-- lower very-- very low personal savings
rates that we now have.

BQ:

20:42:22:00

Gentlemen, let me pose-- pose this to all of you.
At the moment, Mr. Peterson, is it-- is it--
reaching a situation where you've watched a-- a
serious erosion in the economy, does that give
you to political momentum to go ahead and get
people's attention on Capitol Hill?

PETER PETERSON:

20:42:39:00

Well, you know it's kind of dangerous in Omaha,
Nebraska, to have a debate with a Warren
(UNINTEL). (LAUGHTER) In fact, it's-- it's
highly imprudent to do that. So I'll-- I'll
phrase it as a question, Warren, and not as a
definitive conclusion. I think the question is,
is the current long-term situation so systemic,

so structural, so unprecedented that it's gonna take far, far more vigorous action to solve these problems?

20:43:13:00

And is this country willing to take the risk that only a crisis can get us to solve the problem? Because where Warren and I agree, the biggest danger here, in my opinion, is these unthinkable amounts that we're trying to borrow every year abroad. Now, the so-called Peterson Institute, very poorly named in-- in Washington, (LAUGHTER) is doing some projections of what this country looks like in ten years or 15 years.

20:43:43:00

And those numbers are truly, truly frightening. Now, not only are the numbers unprecedented, our politics have become so embedded and so partisan in so many special interests, you know, that it's-- that it's gonna require a massive effort of the public telling them, "We want something done about this situation," much more I think than in the past.

BQ:

20:44:09:00 Mr. Niskanen?

MR. NISKANEN:

20:44:10:00 Mr. Buffett is correct to recognize that the most important capital in the future is human capital, not physical capital. That is a severe long-term problem in the United States. American students graduating from high school place the lowest among industrial countries. We have had a situation from about 1965 to date in which there's been no increase in student performance in the-- in the public school system in the United States, but costs have in-- increased at about 30 percent a decade, cost per student. So that is a very severe long-term problem. It has nothing to do with these other problems. But it has to be addressed in order to-- in order to build the human capital that is gonna be necessary for the modern economy.

MR. NOVELLI:

20:44:59:00 I'd like to go back to the savings issues. I think that the savings issue is a really severe

problem in our country. First of all-- defined-- benefit-- pensions are going away very rapidly. And so what we end up with is defined contribution plans like 401(k)'s. So that means the responsibility is on the employee.

20:45:22:00

And then if you add to that the fact that the employees don't have a way to save at work, they're not saving generally, what you end up with is a situation not only that-- we can't use that money for investment, but individual Americans are heading towards retirement without savings, without adequate savings. So more and more people are gonna be-- are going to have to rely on Social Security for more and more of their retirement income. This is a very substantial problem. We need to address this problem.

20:45:51:00

And one of the things that we've been saying at AARP is if we can fix the problem so that people can understand it, we will take the-- we will

take the solution to the public just as this-- this excellent video has done. We'll take it out, explain it to people, bring their views back to the politicians, and we'll get something done.

BQ:

20:46:11:00

Let me bring a question that comes-- that was e-mailed in over the internet. This comes from (UNINTEL) in Plymouth, Wisconsin, who writes in: "How can we expect Americans to get out of debt when the most attractive and easiest alternatives are to go farther into debt, kind of go into that point?" She also wants to know: "Why is our tax code longer than the Bible?" (LAUGHTER) And, it gets straight to that point.

WARREN BUFFETT:

20:46:34:00

Well, I-- I wanna say this because there-- every line in the tax code is im-- important (LAUGHTER) to some constituency. I'm not sure every line in the Bible is. (LAUGHTER) The-- and actually, you know, you've got thousands of lobbyists there protecting each line in the tax code. And I'm-- again, I'm not sure about-- whether the Bible has

an equal army of people in-- on K Street worrying about it. (LAUGHTER)

20:46:58:00

The-- the-- our tax code is an attempt by various interests, income-- divided by income, divided by-- demographics, all kinds of things, for people to get more of the pie. Now, the question was raised about savings and taxation. I at-- I've been a compulsive saver all my life, as my children will tell you.

20:47:22:00

But the-- the-- I am paying the lowest rate of taxes on my income which comes from investments. I'm paying the lowest rate of taxes that I've paid in my entire life, including when I delivered papers. I am paying a 15 percent rate on di-- dividends. I'm paying a 15 percent rate on capital gains. And there's no payroll tax attached to that.

20:47:45:00

Cleaning lady comes into my office has a 15.3 percent payroll tax-- that she's incurring.

Investors have never had it better in terms of taxes. I mean, the-- you've got 401(k)'s which were-- you don't pay till many, many years in the future. You've got the lowest rate on dividends, capital gains. I-- I worked in environments where capital gains raised for 39.6 percent, employment grew, the economy grew.

20:48:11:00

Nobody told me to go home at 3:00 because they pay so much tax by 3:00, they didn't want me to work until 5:00 or anything of the sort. So investors have it extraordinarily good. And they have it good, frankly, because they've lobbied for it. I mean, they have a strong constituency and my cleaning lady doesn't.

PETER PETERSON:

20:48:27:00

To me one of the most-- difficult provocative questions this country's gonna have to face is how we get people to save more. And I really had my eyes opened about ten years ago when the White House and the congressional leaders asked if I would chair a-- a group on savings and capital

formation. And I got the best savings economists in the country, left, right, and center.

20:48:55:00

And I was amazed that they were virtually unanimous, that the effect of the current tax incentives on savings is both limited and ambiguous. One reason being a lot of people that use those tax incentives would-- might have saved anyway and it-- you-- you'd lose his revenue. So I said to them wai-- wait a minute. You tell me it is imperative that Americans save more. Then how do you propose we go about it?

20:49:20:00

And this group, I was virtually unanimous in saying this country is gonna have to consider something very provocative which is automatic savings or mandatory savings because we've become so consumption obsessed and borrowing obsessed that we're gonna have to look at what Singapore has done, what Chile has done, what Australia has done, and-- and New Zealand and have a requirement that people save two or three percent

of what they make.

20:49:52:00

But this money isn't given to the government because we saw what happened with trust funds. I call the trust fund an oxymoron. It shouldn't be trusted and it's not funded. (LAUGHTER) That money-- that money has already been spent. I'm talking about savings that would be invested internationally in a very diversified way but not in the hands of the government. But that's a shocking idea for Americans. But I think we're gonna have to consider such an idea 'cause we've got to save more.

DW:

20:50:24:00

Real quickly. First, fortunately in this country more people read the Bible than the tax code. (LAUGHTER) But, secondly, I'm a certified public accountant. I have for a number of years prepared my taxes by hand not because I'm a masochist but because when I testified before Congress I wanted to be able to challenge members of the Senate Finance Committee and-- and House

Ways and Means Committee to do the same because we would have tax reform within a year (LAUGHTER) if they had to fill out their own tax (UNINTEL PHRASE). (APPLAUSE)

BQ:

20:51:05:00 All right. Let-- let's get to another question from right here in-house tonight. Rivka Sass has a question as well.

RIVKA SASS:

20:51:12:00 Well, I'm one of those Baby Boomers who's probably going to work until I'm 70. And that worries me because I have a 22-year-old daughter. And what about-- what about them? What about that generation? What kind of hope can they have for taking over the jobs that they're all waiting for us to retire from? What-- what can we tell them? And are you really sure about Social Security? Because I'm still worried.

BQ:

20:51:43:00 David?

DW:

20:51:43:00 Well-- well, first, Social Security's gonna be

here. There are a lot of young people that believe that Social Security is not gonna be there for them, and they're dead wrong. It needs to be reformed. We need to reform it sooner rather than later. In my view, it ought to be a base defined benefit system that provides a strong safety net for lower income, encourages people to work longer, and we need an automatic savings element on top for a variety of reasons.

20:52:08:00

But it's the easy thing to do. The interesting thing you have to keep in mind is that we have very slow workforce growth in this country. That means we need people to work longer, and it means there's gonna be plenty of opportunity for new people. But as Bill said, we're not doing a very good job in our education system. We're not top 20 in the count-- in the world. We're not top 20 in the world in math and science. And, quite frankly, we don't do a very good job of financial literacy and civic responsibility either. And so we're gonna have to address these issues in order

to make sure that not only they have opportunities but that we can maintain and improve our competitive posture over time.

20:52:46:00

(OVERTALK)

MR. NISKANEN:

20:52:48:00

You're-- you're planning to work till 70 helps your daughter. And if everybody else do it, your daughter would be that much better off because the price of maintaining a-- a pension program like Social Security is the function of the ratio of workers to retirees. And that ratio now is scheduled to drop from about three workers per retiree to about two workers per retiree.

20:53:11:00

So in another 30 years, every two workers is gonna have one retiree basically living on-- on their contributions. And so if we can gradually increase the age for full retirement benefits for Social Security and I think Medicare, your daughter will be better off by sh-- because she won't have to be paying these huge tax rates to pay for the pensions.

PETER PETERSON:

20:53:36:00 I-- I will--

BQ:

20:53:36:00 Mr. Peterson?

PETER PETERSON:

20:53:37:00 --answer part of your question, what should the young do, by telling you one of the missions of our foundation. You all remember the old joke about the philosophy professor asking the kids in the philosophy class which is worse, ignorance or apathy? And some sleep kid from the back says, "I don't know and I don't care." (LAUGHTER)

20:54:05:00 Part of what has to happen here is the young people must get so informed about what the risks are to their future, which they are not at the present time, and get so energized and get their-
- their parents aware of what we're doing to their future that they become a very important movement in America. They have not become.

20:54:28:00 And they have one of the best arguments in the

world, which is a moral argument. And I know how convincingly that comes (LAUGHTER) from a Wall Street banker, but never mind. (LAUGHTER) The moral argument was best expressed by a man named Bonheoffer in German who once said the ultimate test of a moral society is the kind of world we leave to our challenge.

20:54:51:00

I think it is a very powerful argument for them to make. So this foundation is gonna put enormous resources on all of the new media, all of the new web-- kinds of websites to get kids involved and organized and activated. And I think that's very important because until Washington hears from the voters, this problem is not gonna move absent a crisis. And one of the great questions this country has to consider is do we wanna wait around for a crisis to hit us? I think it would happen to the-- through the foreign exchange markets or the foreign capital markets in my opinion. It would be an immensely costly crisis. Or should we be devoting this

country's attention to preventing the crisis?
And we are devoted to the preventive medicine
here.

BQ:

20:55:47:00 Let me ask-- is there anyone on stage who does
not think Social Security will be there down the
road?

20:55:53:00 (OVERTALK)

MALE VOICE:

20:55:57:00 Look, that's political--

20:55:58:00 (OVERTALK)

MR. NOVELLI:

20:55:58:00 It's important to point out that Social Security
will be there. If Social Security continues
without any adjustment whatsoever, whenever her
daughter is of retirement age, it'll be paying
about 70 percent of what it's paying now. So
it'll be there, but it won't be good enough.
That's why we have to make steps today to fix
things for tomorrow's generation.

WARREN BUFFETT:

20:56:21:00 Social Security now is taking about four and a

half percent of our GDP. And the projections of the trustees of the Social Security-- fund-- project that in 75 years it'll be taking about six and a half percent of our GDP. But the GDP in real terms per capita will be at least double then. So even though it will take two percentage points more of this double, that will be far more left for everybody else.

20:56:47:00

And-- and-- if you assume that this is a totally static economy and there's-- our pie today will never grow and obviously if the seniors keep taking more, it takes it away from everybody else, that's one equation. But that's not the real equation. The real equation is a pie that's much larger over time. And we can't consume today-- you can't use the cars that are gonna be produced in 2020 or 2030 or the medical services or the education.

20:57:12:00

We are not stealing that from our children at all. They are going to get the cars. And

they're gonna get the trips to Disney World. And they're gonna get all the products that are turned out, the computers and who knows what American ingenuity can dream up. And that goal is to the citizens of the next generation. We can't take that from them. There's no way we can consume today a car that's going to be produced in 2020. That will go to the person who's working in 2020 or the people in this country.

BQ:

20:57:36:00

Mr.--

PETER PETERSON:

20:57:36:00

I-- I don't think we should let this audience leave their respective auditoria thinking that Social Security is the principal problem. We could sit down with Bill Novelli and you and me and so forth and there are a half a dozen solutions that-- that are perfectly sensible, that still preserve the safety net for the poor and so forth.

20:57:59:00

The real issue is healthcare and Medicare. As

you saw, it's not only four times bigger but it's ten times tougher to think through both politically, morally, philosophically, et cetera. So I-- I think everybody should be focused (LAUGHTER) on that issue over the long term.

BQ:

20:58:18:00

And, I'm sorry, Bill, you wanted to make a point as well?

MR. NISKANEN:

20:58:20:00

Well, there have been a number of experiments in other countries now in which people have the option of staying in Social Security or putting their Social Security contributions in a private fund. In Chile, for example, almost everybody has opted for the private fund. And their-- their Social Security still exists for them in the sense that they can stay in this pub-- public fund, but almost everybody has opted for a private fund. And the privatization of Social Security in Chile has been supported now by what is a-- a leftist government.

BQ:

20:58:54:00

Okay. While we are talking about these unfunded liabilities we also have an e-mail that came in from Tom Cab-- Cannick (PH) from Pflugerville, Texas (PH), who writes: "I have never heard a satisfactory answer to this question. How can the government fund \$65 trillion of unfunded liabilities without destroying what's left of the U.S. dollar?" Anyone wanna take a crack?

WARREN BUFFETT:

20:59:15:00

Becky, you know, the-- we showed on (LAUGHTER) the screen some unfunded liabilities.

20:59:20:00

(OVERTALK)

WARREN BUFFETT:

20:59:21:00

We said we'd promise Medicare to everybody when they get to a certain age. We promised a monthly check from Social Security. But we promised all kinds of other things, too. We promised we're gonna defend this country. That's gonna cost us hundreds of billions of dollars a year. That's a promise to the American people.

20:59:33:00

We promised we're gonna educate our children. That's hundreds and hundreds, trillion-- probably in the trillions a year. So we have all kinds of promises for the future. But, fortunately, we have all kinds of productive capacity for to the future, too. So to isolate these promises because they happen to be in a given statute and to say we don't have a promise to defend this country which is gonna cost hundreds and hundreds of billions of dollars, that's a promise of the government just as well.

20:59:56:00

So I-- I think people get very hung up, frankly, on the promises that relate to so much per month or something like that. And we will have more and more goods and services in this country to deliver in one form or another for the American people. And we'll fight in Congress about who gets what and the seniors will wanna get more.

21:00:17:00

And people-- other people will care more about the young. And other people, you know, will--

will care more about national defense or whatever it may be. But the fortunate thing always to remember is that the pie gets larger all the time. And there is more to divide up. And then we have to fight it out as to who gets it.

BQ:

21:00:31:00

David?

DW:

21:00:32:00

Well, I have enormous respect for Warren Buffett, but I'm gonna have to disagree here. These numbers are all based upon official government sources. Secondly, they're all percentage of the GDP. They're percent of the GDP today, in 2040, and every other year in between. So they already take into consideration the fact that there's-- that the pie is going to grow.

21:00:55:00

There's a fundamental difference between the promise that he talked about about to protect this country, which by the way is in the Constitution of the United States-- and some of the other promises that are embedded in law and

that grow on auto pilot. Believe it or not, American people, 68 percent of the federal budget is-- pardon me, 62 percent is on auto pilot. And the 38 percent that's not on auto pilot includes every express and enumerated responsibility the founding fathers had for this country, every single one. And that's getting squeezed. And that's part of the problem.

MR. NISKANEN:

21:01:35:00

Let me make a prediction with-- high confidence, that American politicians will never, ever raise the taxes sufficient to pay for the promises they have already made for Social Security and for Medicare. That means that at least a good bit of the solution to that tens of trillions of dollars of debt out there will be changing the nature of the benefits that are promised rather than increasing the taxes to pay for the benefits that we already have, the benefits that have been promised.

BQ:

21:02:05:00

Bill?

MR. NOVELLI:

21:02:07:00 I-- I think it's really important to understand-- that the biggest problem that we face is rising healthcare costs, which Pete Peterson talked about a few minutes ago. We have got to tackle this. If we can bring healthcare inflation under control, it'll make a big difference in all these different areas.

21:02:26:00 And so we need to address that. And there are policies that will enable us to do so. I wanna add a footnote as well, which is-- as long as we're gonna have a little bit of controversy tonight, I would like to say that it's a very bad idea to privatize Social Security.

BQ:

21:02:41:00 Why is that?

MR. NOVELLI:

21:02:41:00 And that's because it introduces risk into a safety net system, number one. Number two, it would be enormously expensive to do. And number three, it isn't even necessary. We can sit down

now, probably the five of us, and work out an addition on the revenue side, some-- some tweaking and subtraction on the benefit side, and make Social Security solvent. That's why.

BQ:

21:03:08:00

Bill Niskanen, I thought I saw you shaking your head.

MR. NISKANEN:

21:03:09:00

Well, on-- on-- on Medicare-- I agree that we have to figure out a way to control the increase in the price of medical goods and services. But you don't do that by adding to the demand for medical care. And that's what is threatened in the very short run. This next year we're gonna have proposals in Congress for universal health insurance trying to add 47 million people to health insurance that are not insured now. You don't reduce the rate of growth of-- of prices by adding to demand. And that is a-- a lesson that everybody has to learn before they-- before the-- this problem's gonna be sorted out.

DAVE WALKER:

21:03:48:00

Healthcare's the real problem, no question about it. We are the only country on the face of the earth that does not have a budget for what the federal government spends on healthcare. Every other country on earth is recognized that healthcare can bankrupt a country. And we need to learn that, too.

BQ:

21:04:05:00

Okay. I'd like to get another question from here in our audience. I think we have a younger gentleman tonight, Daniel Slesinger. Is he here?

DANIEL SLESINGER:

21:04:16:00

Hi. My name is Daniel Slesinger and I'm a 14-year-old high school sophomore here in Omaha. I think we can all agree that after seeing this movie we can say that there's going to be a large load on my generation's back when we grow older. What can we do to help pay for the Baby Boomers' Social Security that's going to be due to them? And what will be the first thing that the next President to do to help fix-- to help fix this

problem? Thank you?

BQ:

21:04:48:00

All right, David?

DAVE WALKER:

21:04:49:00

First, the next-- the candidates for President now should do two things. They should acknowledge that we're in a \$53 trillion hole that grows by \$2 trillion to \$3 trillion a year by doing nothing. And that they will make addressing our fiscal future and improving intergenerational equity a priority if they're elected President.

21:05:10:00

And secondly, they should commit now that they will support a capable, credible, and bipartisan commission to make recommendations to the next Congress and the next President for at least four things: tough budget control, comprehensive Social Security reform that solves the problem indefinitely, round one of tax reform, round one of healthcare reform at a minimum. We can solve these problems, but we need to start soon.

BQ:

21:05:38:00

Gentlemen, is-- (APPLAUSE) is it fair to say, just by how five, like-minded, intelligent individuals, how we can pick up a little bit of disagreement among you five, is it fair to say that that is why it is so difficult to get anything through Congress when you go to Washington? To try and find the-- oh, you disagree with me (LAUGHTER) already, Bill.

MR. NISKANEN:

21:06:07:00

No, I-- I think Congress is very-- short minded in terms of time. They wanna be perceived to be doing something that helps people between now and November. And that is not the period of time in which you're gonna sort out Social Security or any other big problems. There are all kinds of problems that are gonna be there after-- after the election in November. And then you can't-- you can't start thinking about it every time with the expectation of-- of doing it between now and the next election. We have a very short-minded-- political system. And-- we need people to be

willing to think beyond-- the next election.

BQ:

21:06:44:00

Bill--

PETE PETERSON:

21:06:45:00

You know, I think it's important for us to remember that our founding fathers had a very different idea of the Congress than the one that has emerged. They had the idea that it would be a part-time activity. They would go there to help certain problems, and they would go home. Now they have become careers. They have become jobs. And, therefore, their primary orientation is "How do I keep my job? And how will I get re-elected?" (APPLAUSE)

21:07:25:00

So what I'm arguing for basically is we, the people, and this is a wonderful democracy, have to get ourselves informed, activated, motivated, organized to let them it that you want them to do something about this problem now. And if they don't, their jobs are at stake. And that's a very different strategy than listening to all

these special interests tell them, "I want more of this. And I want more of that. And I want this tax preference."

BQ:

21:07:54:00

Warren?

WARREN BUFFETT:

21:07:56:00

Well, I agree that-- I mean, the-- you always have a problem in the democracy when-- when the policy cycle is longer than the electoral cycle-- electoral cycle. And you have that in energy. You have it with weapons of mass destruction. You have it with fiscal policy. It-- it adds-- it's easy. I mean-- talk about how they just wanna keep their jobs.

21:08:15:00

But I-- I think most of the people in this audience probably wanna keep their jobs. You know, I-- (LAUGHTER) if-- it's-- they have to, in effect, come up with 50.1 percent of the vote when they-- when they-- get to November. And-- they're going to be responsive to what they think will please constituents-- more constituents than

they offend.

21:08:37:00

You know, it's the old story where politician says, "I've got friends that are for this and I've got friends that are against it. My policy is (UNINTEL) for my friends." Well, that's-- (LAUGHTER) that-- that is the equation that-- that's faced. And you can-- when emergencies come up or-- or when there's enough pressure-- intellectual pressure through the press, whatever it may be-- we rise above that periodically. But most of the time it's a terrible problem.

BQ:

21:09:03:00

Bill Novelli, your constituency, the AARP, is a-- a-- a group that a lot of times gets blamed for slowing things down in Congress. What-- what's happening right now?

MR. NOVELLI:

21:09:12:00

Well, AARP is-- is part of the solution, not part of the problem. (LAUGHTER) What's happening right now-- what's happening right now is that-- there are three really difficult issues I think--

that this video points out. First of all, these really are complex problems. I mean, you can see there's a lot of agreement here, but there is some disagreement. There is a great deal of complexity and these problems are interlocking.

21:09:35:00

The second thing is the partisanship. And as Pete said, you know, it's a question of "How do I keep my job?" if I'm a congressman. But they're also thinking to themselves-- "How do I get my party into the majority if I'm in the minority? How do I stay in the minor-- majority if I'm-- if I'm already there?"

21:09:51:00

And so the partisanship is really toxic. And the only way out of it, really, is to hold politicians accountable, the point that-- that Pete made. And the third issue is that even though we do have crises, they're sort of like low-grade fevers. We don't have a Pearl Harbor facing us.

21:10:09:00

And so it's easy to kick the can down the road. It's easy to say, "Well, we'll let the next Congress deal with this." And so it's really important for all of us to educate ourselves, to inform ourselves, and to really not just vote but to work hard to keep expressing our opinions and to hold our politicians accountable.

BQ:

21:10:31:00

We have--

21:10:30:00

(OVERTALK)

PETE PETERSON:

21:10:30:00

Well, I-- I think that you-- we-- if-- we-- we haven't focused perhaps enough on the essential need not just for presidential leadership, not just for much more public education and involvement, but for bipartisanship. I was brought up in Nebraska, in Kearney, Nebraska. And I must say about my dear friend Warren, I introduced him one day in (COUGHING) New York. And we had three Nebraskans in the audience, myself-- Bob Kerry, Senator, and Ted Searns (PH).

21:11:06:00

He said, "I know there are three real Nebraskans in this room. But the rest of you claim to be from Nebraska for social status reasons."
(LAUGHTER) So I feel my social status has been enhanced. But I used to do pheasant hunting. And-- and I assume they still do it in Nebraska. And, you know, when that poor pheasant lifted its head, it's bang, it got shot off.

21:11:31:00

Our political system has become so partisan that if somebody does make a sensible proposal, and make no mistake about it, somebody's gonna have to give up something or pay for it. That's not great news. So it's perfectly easy to shoot-- to pop that guy's head off. It's important that the parties get together and why we're supporting this bipartisan commission idea that Dave mentioned.

BQ:

21:11:57:00

Okay. I'd like to get to another question from the-- from the audience tonight. Sherry Hutcherson?

SHERRY HUTCHERSON:

21:12:07:00

I'm going to switch gears a bit to-- to the foreign-- debt that we have-- because the film talked a lot about that. What would happen to the U.S.'s economy if the foreign countries were to call or sell the debt that we have with them today?

WARREN BUFFETT:

21:12:24:00

Well, that's an interesting question because it-- it comes up all the time. You know, what if the Chinese decided to dump their U.S. Treasuries-- or the Japanese decided to do it? Think about it just a minute. If-- if they own let's say a-- a trillion dollars worth of U.S. Treasuries and they wanna sell them, who do they sell them to? If they sell them to somebody in the United States, what do they get for them? They get dollars.

21:12:47:00

Now, they can use those dollars to buy stocks. They can use them to buy real estate, but they do get dollars. They haven't gotten out of the

dollars. They've changed their asset preference if they do that. Now, another alternative to the-- say, the Japanese might have is they could sell them to the French. And from-- from the French they would get euros but now the French would have any obligation in dollars.

21:13:06:00

It's impossible for the rest of the world to get out of being in a net creditor position against the United States. If-- if-- we owe the rest of the world roughly \$3 trillion now. And that's net-- and it counts everything, equities, real estate, and the works. They can't get rid of that except by buying more of our goods than they sell us. That's how we got in this position in the first place. That's the only way it can be reversed. So a given country can decide it wants to get out of dollars. But if you can't get out of them by selling them to us, their-- their dollar assets, they have to sell them to another country. And then that country has more dollar assets.

21:13:42:00

So if you just look at the equation, it's-- it-- there is no way-- they-- they can-- they can sell bonds if they wanted to buy stocks instead. That's what sovereign wealth funds are doing. The Chinese are making a decision with the sovereign wealth fund. They'd rather buy our equity than buy our debt. They have that choice. They do not have the-- the world as a whole cannot get out of dollars.

DAVE WALKER:

21:14:03:00

But beyond the dollar you have to keep in mind--

21:14:05:00

(OVERTALK)

DAVE WALKER:

21:14:06:00

--our debt, we sell our debt-- we sell our debt at auction. And so, therefore, the interest rate that we pay on the debt is part of supply and demand. How many people wanna buy our debt and what are they willing to pay-- you know, for that? The risk is not, as Warren Buffett said, that people are gonna dump our debt. And they don't really have many options with regard to,

you know, to-- to the dollar exposure.

21:14:32:00

What the risk is, I believe, is that they may decide for prudence, diversification, political, or other reasons, that they may not wanna continue to buy our debt at the rates that they have been in the future when our deficits are escalating, especially if we don't show some type of seriousness about trying to deal with our large, known, and growing fiscal problem.

21:14:57:00

If that happened at a time where we need to finance more then that could cause interest rates to go up. If interest rates go up then that means more of the defi-- more of the budget def-- budget is on-- is-- is on interest, which is paying for to past, not for the present or investing in the future, which has a-- a ripple effect in other aspects of the economy.

BQ:

21:15:18:00

Mr. Niskanen?

MR. NISKANEN:

21:15:19:00

There's a special problem in the nature of the-- debt that we owe to foreigners. A lot of it is-- is-- central bank purchases of American Treasuries securities. And the interesting part about this is that they're losing money on those Treasury securities every year. And they have-- they have for years.

21:15:39:00

And the interest rate of those Treasury securities is lower than the-- than the deflation of the dollars spent. So they've had a negative rate of return on all their investments in American Treasuries now for four or five years. And so there's a great incentive for these foreign central banks to get out of those-- of those Treasury securities. And a great incentive to move into government-- government equity funds. In other words, government funds that invest in American equity, not in American Treasury bills. There's a special problem-- of that as well. But there's-- there's been a

puzzle for some years as to why they have continued to buy as many Treasuries as they have because they have lost money on them and continue to lose money on them.

BQ:

21:16:26:00

Gentlemen, I'd like to bring up one e-mail that was sent in because I heard this message repeated again and again through the e-mails. This comes from Nancy Tipness (PH) from South Orange, New Jersey. But, again, this is a message we heard from many people. "Is there anything the average American on the street can do to change any of this?" And if you could give your single most important thing you think people can and should be doing, why don't we go down you line? And, Bill, we'll start with you.

MR. NOVELLI:

21:16:49:00

I can't give a single thing. I have to-- I have to give you several. (LAUGHTER) The average-- the average person in this country-- can really take care of his health or her health and the health of their family. That is the single most

important thing that we can do because prevention is so much more important than falling into a state of disease. That's number one.

21:17:11:00

Number two, really work hard to save. A little bit of savings when you're young is far better than savings when you're in your 50s and 60s. I mean, compound interest is very, very powerful. And number three goes back to what we were talking about earlier, which is really try to be a good citizen. Really try to hold our elected officials accountable for the change that we need to have.

BQ:

21:17:35:00

Bill Niskanen?

MR. NISKANEN:

21:17:36:00

There's another thing that we all have to do, both in the audience and in the-- in the country. We have to stop expecting the federal government to insure us against basically anything bad that happens. (UNINTEL)-- (APPLAUSE) we have-- we have a serious problem in the housing industry

and in the housing finance industry.

21:18:00:00

But this bill that has just been passed in Congress-- bails out some of the people who were foreclosed. It bails out the-- the banks that loan-- lend money to these people. It-- it-- there was effort to bail out the home builders themselves. And so all of those people put pressure on their congressmen to say, "Hey, we're in trouble. Please help us." That's something that we have to stop across the board. And it has to be all of us, not just a few of us.

DAVE WALKER:

21:18:30:00

Well, first, we have to recognize that government has no money. (LAUGHTER) Government taxes takes a haircut for administrative expenses, redistributes income, buys some things-- and spends more money than it makes. So it borrows increasingly from foreigners. But it has no money.

21:18:50:00

We had the biggest taxation without

representation going on now in the history of this country. (COUGHING) We are spending more money than we make. And we're expecting our kids, our grandkids, and generations unborn to pay the bill. Why? Because many of them can't vote. They're disenfranchised.

21:19:09:00

Now, what we have to do is to recognize and reward elected officials, Democrat, Republican, Independent, whatever, who tell the truth and who stand up and try to help make tough choices sooner rather than later to make sure that America's future is better than its past and reject the BS and the nothing types of solutions and, you know, platitudes that we hear from so many politicians today. (APPLAUSE)

PETE PETERSON:

21:19:50:00

You can see now why I selected him as president and CEO. (LAUGHTER) I think we have to make it politically in the self-interest of our politicians to do something compared to doing nothing. And as long as they think their only

job is to cater to one special interest after other and let our kids pay the bill, we have ourselves to blame for this. This is a democracy.

21:20:22:00 But the one most important thing that has to happen is the public has to get educated. Our kids have to get educated. And then they have to get involved in this democracy. (APPLAUSE) And the second thing they have to do is start saving more, in case you haven't heard that story before tonight. (LAUGHTER)

21:20:48:00 (OVERTALK)

WARREN BUFFETT:

21:20:49:00 I would say the most important thing is the woman in New Jersey that--

21:20:53:00 (OVERTALK)

BQ:

21:20:53:00 Yes, South Orange, New Jersey.

WARREN BUFFETT:

21:20:54:00 Yes, I-- is-- is the most important asset she has or you have or I have is ourselves. I mean, and-

- and-- and developing your own potential, 'cause most of us don't operate at anything close to full potential, developing your own potential will do more for her in terms of her ability to do well in-- any kind of-- of society. And she'll be in a good society. And, I mean, she is going to be working at a fertile field.

21:21:22:00

How many people are looking to go to Bangladesh or Peru or someplace like that? They wanna come into this country. So she-- she is in a wonderful place. And she was lucky to-- to be born here. And the important thing is that she develops her potential, whether it's communication skills, whether-- any kind of-- talent. She's got talents that she probably doesn't-- know she has even until she works at it. And-- and I don't care if the currency is seashells or anything else. If she's the best of this or that in any given profession or among the top one she'll do fine in the society. So I would say go to work on herself.

BQ:

21:21:57:00

David, let me ask you a question. You-- you've taken this tour, you mentioned in the film, to more than 20 states-- the District of Columbia as well. What's the feedback that you've gotten over time? Do you feel like this is a problem that is getting more attention from Americans? Is easier to talk to them about? Or do you feel like it's an uphill battle every step along the way?

DAVE WALKER:

21:22:16:00

We've now been to over half the states, over 40 cities, tens of thousands of people-- and what I find is that the American people are a lot smarter than many people give them credit for-- that they can state-- they can understand the problem, and they want solutions. And I come back to something that Pete said earlier. The three most powerful words in the Constitution are the first three. And we're gonna solve-- we can solve any problem in this country once we, the people, wake up and demand that our elected

officials start making tough choices and hold them accountable if they don't. The pa-- the-- the pain associated with doing nothing must be greater than the pain associated with doing something.

BQ:

21:23:06:00

All right. And that's with dealing with the people. In dealing with the politicians, which you've been doing for many, many years in Washington, is it an easier message (UNINTEL) now? Is it a tougher message? What's the give and take?

DAVE WALKER:

21:23:17:00

Well, nobody wants to lose their job, I agree with-- with Warren on that. The only thing I would say is, is that when this country was founded, the philosophy was that people were gonna go to Washington for a short to medium period of time for public service. They were gonna leave different occupations. And they were gonna return to those occupations.

21:23:36:00

We don't just have a problem with regard to-- you know, short sightedness. We have a problem not just with regard to that but also with regard to political battles and the ideological divide. There's only about 60 seats in the House of Representatives that are truly competitive. And most of the Democrats are more liberal than the country.

21:23:55:00

Most of the Republicans are more conservative than the country. There's very little sensible center. That's where the deals are done. That's gotta be addressed through redistricting reform combined with some campaign finance reform and other potential reforms eventually.

BQ:

21:24:10:00

We have time for just final thoughts from everyone. We-- we've gone through some of your most important messages to get across. But if you had a final thought that you think we didn't get to tonight, something that we didn't pay enough attention to-- why don't we do that rather

quickly in the last couple of minutes here? Pete Peterson?

PETE PETERSON:

21:24:29:00

Well, I'm the-- luckiest recipient of the American dream possible. My-- parents were Greek immigrants. They came to this country at the age of 17 without a penny, without a word of English, and with a third-grade education. And they worked and worked and saved and saved. And they made it possible for their sons to do far better than they did.

21:24:57:00

This country in times past has risen to great challenges. And make no mistake about it, what we're talking about tonight is a great challenge. But I remind you of what happened in the Second World War. We had huge debts, over 100 percent of the GDP. We had huge ambitions, Marshall Plan, to reconstruct the world. We had a huge highway infrastructure program. And you remember the GI Bill.

21:25:26:00

And when people understood these problems, they were so grateful for this country, my father's tears would come to his eyes when he sang "God Bless America." This sense of patriotism can be aroused again. And if it is, what did that generation do? And why can't we do the same?

21:25:45:00

They reduced the debt dramatically. They paid for the GI Bill. They paid for the Marshall Plan. And they paid for the infrastructure because they had leaders and people who got educated at what the problems were. And they were led to do great things for this country. And that's the change that has to take place in this country.

BQ:

21:26:06:00

Mr. Buffett? (APPLAUSE)

WARREN BUFFETT:

21:26:14:00

Well, I would just say, this sort of echoes Pete's view. If I were being born today and I was in the womb, exactly the DNA I got but I had an identical twin right next to me, same exact

DNA, and a genie appeared and he said, "We've got a problem. There's only room for one more in the United States. And the other one is going to have to go to Bangladesh. But I've got wonderful news for you. If you go to Bangladesh, you'll never pay a dime of taxes in the rest of your life. You can work there for nothing-- for no taxes whatsoever.

21:26:57:00

"And I'm going to give the right to be born in the United States to whichever one of you will bid the highest percentage of your income over the rest of your life to be in the United States." It would be one hell of a bidding war. (LAUGHTER) And you can replace Bangladesh with country after country after country, and the truth is the prospects of being born in the United States are still better than being born in anyplace in the world. And, you know, I feel very fortunate that I was born here. (APPLAUSE)

BQ:

21:27:32:00

Bill, one last thought?

MR. NOVELLI:

21:27:34:00

Well, Dave has been going around with this fiscal wakeup call. AARP's been doing a similar thing. We started a coalition with big business and-- and small business and with a big labor union. We call it "Divided We Fail." We've been going to the people and we've been talking about these very issues.

21:27:52:00

And I think that the public is ready for change. They're not just worried. They're at a stage where they really, really wanna see change. And I think we can do it. Now, Winston Churchill said that Americans can always be counted on to do the right thing after they've tried everything else. (LAUGHTER) We've tried everything else. Now we can do the right thing.

BQ:

21:28:16:00

Bill Niskanen? (APPLAUSE)

MR. NISKANEN:

21:28:24:00

I'm the only economist in this distinguished panel. And I was most concerned initially that

my comments would prove the common perception that economists are people who are good with numbers but without-- without enough personality to become accountants. (LAUGHTER)

BQ:

21:28:48:00

All right. And Mr. Walker?

DAVE WALKER:

21:28:52:00

We're a great country. Probably still the greatest on the face of the earth. But we face some serious sustainability challenges, several of which were noted tonight. We need to address our leadership deficit. We need to start making tough choices sooner rather than later. We need change. But keep in mind there's positive change and there's negative change. And so we need to address our leadership deficit first and foremost. And if we do and if the American people become in one-- informed and involved, we can rise and solve this challenge and, frankly, any challenge that's put before us. (APPLAUSE)

BQ:

21:29:41:00

Gentlemen, I would like to thank you all for your

time. This distinguished panel tonight, I-- I think we can all walk out of here feeling-- an awful lot smarter about what's happening in our nation tonight. And I think you five are the greatest reason for that. So thank you all for your time tonight.

21:29:55:00

Also-- everyone here in the audience-- those of you who asked questions, those of you who didn't get a chance, we do appreciate your being here and thank you for your time, also-- the theaters across the country. Folks, that does it for us tonight, but-- thank you very much for joining us. We appreciate it. (APPLAUSE)

21:30:13:00

(MUSIC PLAYING)

FEMALE VOICE:

21:30:17:00

Want to join the Fiscal Wakeup Movement? Text IOUSA to 30644 and you'll receive regular updates on your mobile phone.

21:30:28:00

(MUSIC PLAYING)

* * *END OF AUDIO* * *

* * *END OF TRANSCRIPT* * *