

Peterson's Purpose

An Interview with Pete Peterson,
 Founder and Chairman, Peter G. Peterson Foundation

EDITORS' NOTE Pete Peterson, a Co-Founder of The Blackstone Group, now dedicates his time to his foundation and other charitable activities. Before starting Blackstone, he was Chairman and CEO of Lehman Brothers (later Lehman Brothers Kuhn, Loeb Inc.). From 2000 to 2004, he served as Chairman of the Board of Directors of the Federal Reserve Bank of New York. Peterson spent part of his earlier career in government service when, in 1971, President Richard Nixon named



Pete Peterson

him Assistant to the President for International Economic Affairs. One year later, he was named U.S. Secretary of Commerce. Following his stint in government, Peterson was instrumental in launching the Institute for International Economics (now the Peterson Institute for International Economics) and The Concord Coalition, a nonpartisan organization that advocates for sound fiscal policy in Washington. Peterson also is Chairman Emeritus of the Council on Foreign Relations and the author of five books, including the best-selling *Running on Empty: How the Democratic and Republican Parties are Bankrupting Our Future* and *What Americans Can Do About It* and an autobiography entitled *The Education of an American Dreamer*.

ORGANIZATION BRIEF The Peter G. Peterson Foundation (www.pgpf.org; PGPF) is a nonpartisan organization dedicated to increasing public awareness of the nature and urgency of key fiscal challenges threatening America's future, and to accelerating action on them. To address these challenges successfully, the foundation works to bring Americans together to find and implement sensible, long-term solutions that transcend age, party lines, and ideological divides in order to achieve real results.

What challenges did you confront in starting the foundation and how have you addressed them?

People didn't initially grasp the seriousness of our debt problem and its lack of sustainability. But if we don't reduce the long-term debt substantially, we take serious risks not only of very slow growth, but also of financial crisis.

To help build awareness that our fiscal challenges are real and urgent, we put out a film called *I.O.U.S.A.*; we launched a major public

awareness and engagement campaign featuring a fictional character named Hugh Jidette (a play on "huge debt"); and we sent reports and analyses to Congress and the Administration.

In 2010, we held our first annual Fiscal Summit, which brought together major figures from both parties in Washington – Bill Clinton, Paul Volcker, Erskine Bowles, Alan Simpson, Alan Greenspan, and top officials in the Obama Administration and Congress. The summit was successful in raising awareness substantially.

The next step was to show that solutions to long-term fiscal challenges are possible. So in May 2011, we had a second summit to focus on solutions. We asked Bill Clinton to participate again along with the Gang of Six – the group of Senators from both parties working on the debt issue – as well as Gene Sperling from the Administration and Paul Ryan, the House Budget Chairman.

Since our long-term fiscal problems can only be solved in a bipartisan way, we gave grants to six leading think tanks, covering the entire ideological spectrum.

We asked the groups for plans that would address the problem and told them that we would have their policy choices measured for their impact on the debt at 10- and 25-year intervals. All of the groups reduced debt – and they did it according to their own principles and visions. The groups presented their plans at the Fiscal Summit. We distributed them widely and set up meetings with the staff at the Senate Budget Committee and the House Budget Committee so they could hear these reports and see that there was bipartisan agreement on the need to act on the long-term problem.

In terms of the support you gave to some of those think tanks, is there commonality in the solutions?

There is a common agreement that the problem is very serious. There is a lot of commonality in the opinion that we ought to protect the safety net for the people who need it. One of the goals was to bring more solutions to the table, so that leaders could see that people across the spectrum agree that this is serious and urgent, and the Solutions Initiative definitely accomplished that goal.

We're now planning our next summit for spring 2012 and we want to focus on the third

major aspect of the problem, which is how to get something done – finding political will and resolve because the problem is a political problem at this point.

Is it tough to be optimistic on that front knowing how things work in Washington?

It's tough. As I said, awareness of the problem has increased considerably and there are solutions out there. But getting elected officials to act with a long-term view has proven difficult. A lot of our work so far has been centered on Washington, but we're beginning to do more to reach everyday Americans, because that's ultimately who political leaders will respond to. We decided to be a broadcast sponsor of one of the New Hampshire debates, which focused on economic issues and was hosted by Dartmouth College, Bloomberg, and *The Washington Post*. We created quite a stir with our commercials. The ads featured young people talking about this problem – we thought they'd be good messengers, because it's their future at stake. We plan to continue expanding our public education and outreach efforts to build momentum for action in Washington.

Do you find that many of those empowered to do something about it are happy to be in front when saying that there is a problem, but there is then a lack of leadership in taking action?

I think both sides will need to put ideology aside and work together if we are to solve this problem. Each side has its sticking points. Democrats – particularly the farther left you go – are wary of making changes to entitlements. Republicans – particularly the farther right you go – have been insistent that taxes should not go up. I understand why both sides feel the way they do, but we need more movement toward the center.

I agree the well-off should assume a fully shared burden, but research says that if you try to solve the whole problem by only taxing the well-off, you would have to raise the top tax rate to 90 percent to stabilize the debt – that is impractical. If you wanted to have tax increases across the board, it would require an increase of revenues of almost 50 percent, which would be draconian.

On the other hand, to rely on spending cuts alone, you'd have to cut spending by about one-third; in the current budget, that would be something like a trillion dollars. A lot of people don't want to touch Social Security and defense.

If you want to exclude those, you'd have to cut spending by almost 50 percent, which is unthinkable. So it seems very clear that some mix of benefit reductions and tax increases, largely targeted toward those who can most afford to bear the burden, will be necessary to get the long-term debt under control.

If each side is focused on one part of the problem, can that gap be bridged by leaders in each party?

One of the places where there needs to be a compromise, but there is an unwillingness to do so, is entitlements. If you take the long view, entitlements plus interest spending account for the entire long-term problem. Health care is the major driver and Social Security is less so but still significant.

When it comes to health care, we spend twice as much per capita as the rest of the developed world and many of our health outcomes are no better. We're currently spending 17 percent of GDP and that is projected to rise to 27 percent over the next 25 years. But it's very difficult to fix the cost drivers – a fee-for-service payment system that incentivizes more tests and procedures; third-party payments that obscure costs and a medical liability system that encourages providers to practice defensive medicine. So we have to come up with ways to emphasize outcomes, value, and cost. That will take good ideas and motivated leadership on both sides.

Social Security supposedly isn't a problem because it's "solvent" until 2036. The trust fund is considered sacred, but that is fiction because the dollars that were put in the trust fund have already been spent for other purposes and the trust fund got what amounts to IOUs from the federal government, so we have to borrow the money to pay back the IOUs to fund Social Security. If you're concerned about long-term debt, I don't see how you can ignore that because the number is significant – around \$2.6 trillion.

But as policy-makers go about reform, it is important to agree on a principle or two. In this richest of all nations, I don't see how we can leave anyone vulnerable. The basic principle I believe in is gradual, progressive changes to solidify the benefits for lower-income Americans and have those of us who are fortunate enough to be well-off assume more of the burden through reduced benefits – that would make a significant contribution. I would hope we can get bipartisan approval on that basic premise.

Another area that needs action is defense spending. People on both sides acknowledge that defense spending is often inefficient, but

elected leaders are very reluctant to find real cuts. We spend more than the next 17 countries combined on defense. We're going to have to figure out strategies for a new era where the threats are different from what they once were. We have to provide good national security and that depends on a strong economy and good fiscal policy. So we have to decide what is truly in the national interest – we have to understand the threats and ask how serious they are and what the risks are so we have a strategy-driven defense budget with missions tied to that strategy.

Underlying all of this effort to reduce deficits is the recognition that borrowing too much today will take resources away from investments in our future. We will only have the kind of innovative, technology-driven economy we need to compete in an increasingly competitive world if we have the resources to invest in areas like education, skills training, infrastructure, and R&D that are necessary for economic growth.

You knew that taking on this issue would not be easy, but were you surprised at how challenging it has been?

When the alternative to taking action is watching this country decline, and seeing the future of the country and our kids seriously imperiled, as someone who considers himself a lucky American dreamer, I don't see that we have any alternative but to try. And I hope others will get more involved and be more vocal, especially the business community, which has a lot of insight into building a strong economy and keeping our nation competitive, but has been largely missing-in-action on the long-term fiscal issue.

It is extremely difficult. But I'm a son of immigrants and I have seen what this country can do, and I'm genuinely worried about the future of America. We must do more to ensure that our children and grandchildren have the same opportunities that so many of us have been lucky enough to enjoy. That's good motivation to keep at it, no matter how difficult. ●

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