



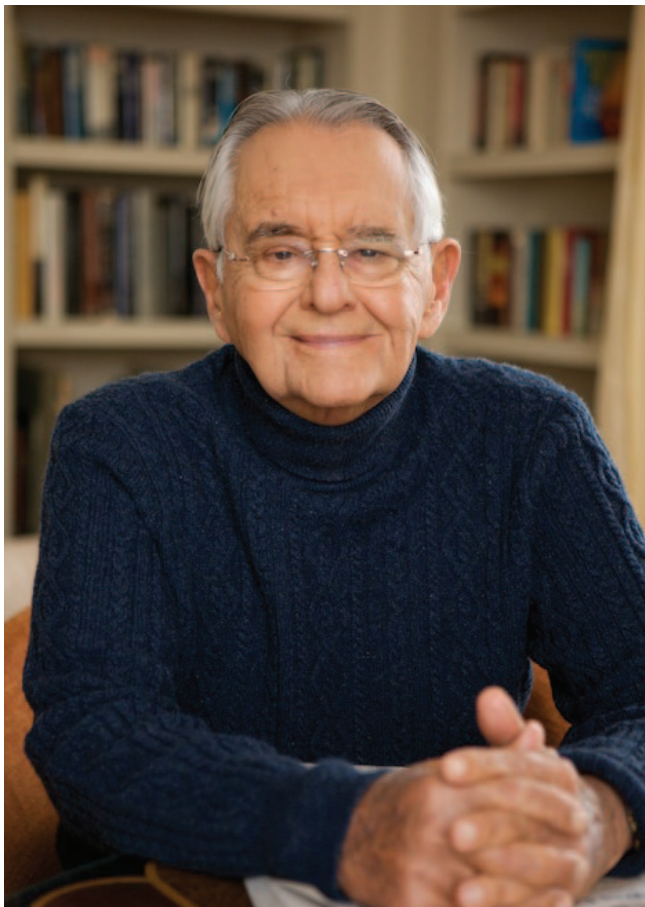
PETER G. PETERSON FOUNDATION PROGRESS REPORT

2008 – 2011



A LETTER FROM THE CHAIRMAN

A lifetime of opportunity inspired our founder's mission to preserve the American Dream.



PETER G. PETERSON

I'm often asked why I decided to start a foundation focused on addressing America's long-term fiscal challenges, which I consider a primary threat to America's economic future. The simple answer is that, in my mind, I had no choice.

A few years ago, I faced the question of what to do with the bulk of my personal financial resources. I knew that I had more than enough. I also felt that the

American economic system, which had provided so much opportunity to me, was in peril. Skyrocketing levels of projected long-term debt not only raised the risk of a financial crisis, but were also threatening to stifle economic growth, choke off critically needed investments in education, skills training, infrastructure, and innovation, pass on a huge burden of debt to people in my nine grandchildren's generation, and bankrupt the social safety net programs that so many rely on. Furthermore, the inequality of income in the U.S. had reached the highest levels since 1928, threatening the ideal of fairness and opportunity for all Americans.

The American Dream is an idea instilled in me from a young age. My parents were Greek immigrants who came to this country with only a third-grade education, barely any English, and just pennies in their pockets. After settling in the small town of Kearney, Nebraska, they opened the inevitable Greek diner. It was certainly not distinguished for its cuisine, but rather for the fact that it was open 24 hours a day, 7 days a week for 25 years. My parents worked so hard all those years because they wanted my brother and me to get the best education and have the opportunity to pursue the American Dream.

In every respect, I have been the luckiest of American Dreamers. From business to government to finance, I have had opportunities that were only available in America. And I want future generations to have the opportunity to realize their own version of the American Dream.

As I saw our national leaders go year after year blithely ignoring our looming long-term deficits and debt, I knew I had to do something. I couldn't imagine waking

up in 10 or 20 years in a weakened America that had lost the American Dream, and not having tried to do something about it. The words of my former professor at the University of Chicago, George Stigler, rang in my ears: “If one has no alternative, one has no problem.” So in reality, I had no alternative but to try.

I started the Peter G. Peterson Foundation to engage with people all across America – policymakers, budget experts, business leaders, journalists, academics, and citizens of every generation ... frankly, anyone who will listen. We have had the help of some outstanding individuals, including our first CEO, former Comptroller General of the United States David Walker, who has demonstrated tireless dedication to fiscal issues.

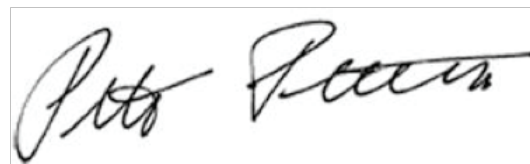
By publicizing the dismal truths about America’s long-term fiscal challenges and, even more importantly, offering a hopeful, positive vision of an America that is fiscally sound, economically secure, and brimming with opportunity, we hope to stimulate progress on solutions and ensure that our nation has the resources to build an investment and innovation economy that is globally competitive for decades to come.

The America we envision has a strong middle class, offering jobs and widely shared prosperity and giving all people, no matter where they start in life, the opportunity to climb the ladder of economic success. And as we make the tough choices required to reduce our long-term debt to sustainable levels, we, the richest of nations, must also preserve the safety net for the vulnerable.

The first three years of our Foundation’s operations have brought me great satisfaction. Our nation’s fiscal problems are serious, but I am optimistic that they

can be solved. Despite frequent political wrangling and slow progress, a consensus has emerged across the nation and across the political spectrum that we can no longer ignore fiscal reality. The American people have grown deeply frustrated with a Washington that often seems too focused on ideology and unwilling to reach across the aisle. They believe we must change course and they are eager for policymakers to enact solutions. While the impact of our fundamental budget challenges will be felt over the long term, it is imperative that we begin to address these challenges sooner rather than later. The next few years will be decisive in determining the long-term fiscal future – and therefore the economic future – of our nation.

This report provides an overview of our initiatives and grant-making since our launch in 2008. It is the first chapter in our story – one that I believe will have a successful conclusion. We look forward to regularly updating you on our progress – and to highlighting how our nation is progressing in confronting its long-term fiscal challenges and preserving the American Dream.

A handwritten signature in black ink, reading "Pete Peterson". The signature is written in a cursive, flowing style.

PETE PETERSON

Chairman and CEO

AMERICA'S ECONOMIC AND FISCAL CHALLENGE

To ensure a vibrant economic future, the United States must tackle its long-term fiscal challenges. We know what needs to be addressed, and we know there are many potential solutions. Now we need to build support for bipartisan action.

BY MICHAEL A. PETERSON, PRESIDENT AND COO

A healthy, growing economy is critical to improving our quality of life and maintaining the American Dream for current and future generations. Today's pressing economic challenges must be addressed, yet even larger long-term economic and fiscal challenges lie ahead.

In order for our economy to thrive in the future, we need to make wise decisions today. In any financial or economic activity, a prosperous future requires prudent investments that generate productive returns. The success of our economy rests in the hands of American workers, entrepreneurs, and businesses, all of whom need a healthy climate in which to invest, innovate, and build.

The federal government has an important role to play in maintaining such an environment.



MICHAEL A. PETERSON

However, by any measure – conservative or liberal, Republican or Democrat, supply-sider or Keynesian – the federal government's current long-term path is simply unsustainable.

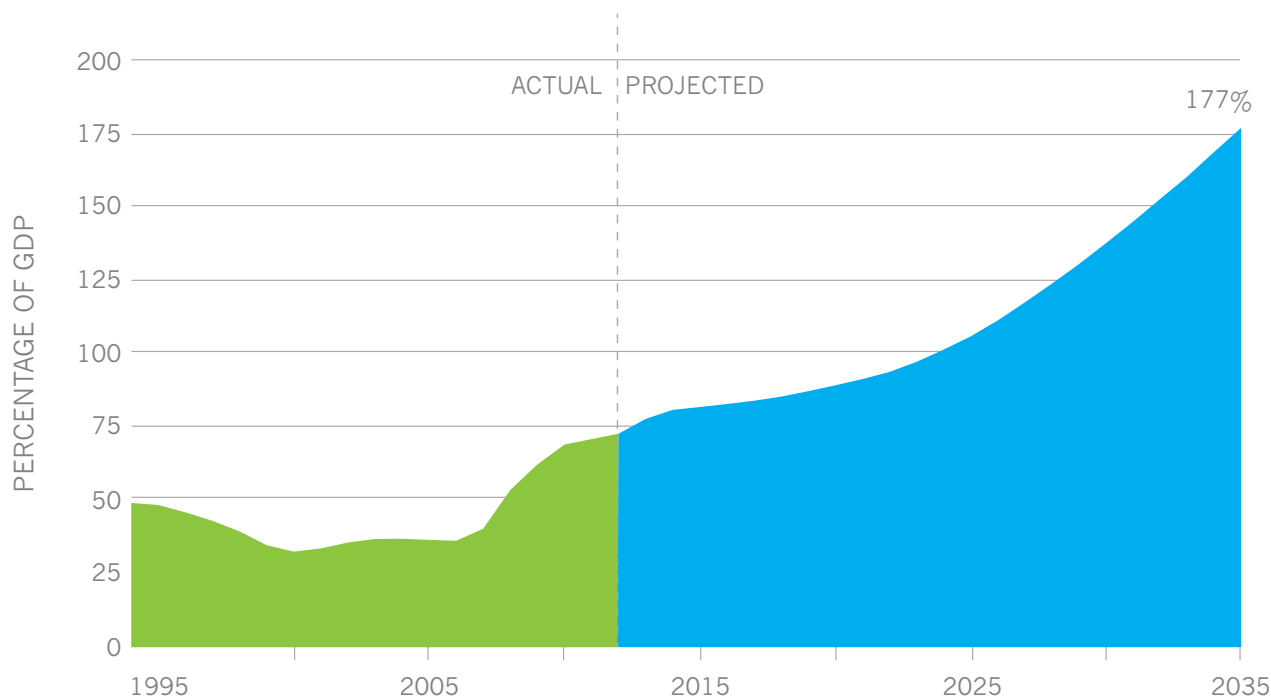
Many have called this “the most predictable economic crisis in history.” That's because the fiscal future is clouded by a perfect storm of very predictable demographic factors that pose a serious challenge to the long-term budget outlook: Baby Boomers are beginning to retire, the elderly are living much longer in retirement, and health care costs (which represent a significant government obligation) are on a dramatic rise.

In a 2010 Foundation survey of former economic policymakers from both parties, a resounding 100 percent of Republican and Democratic respondents agreed that America's long-term fiscal path is unsustainable, and 84 percent agreed that a failure to address the country's long-term structural deficits would lead to another economic crisis in the next ten years.

Why is the concern of experts so unanimous? Simply put, the federal government is on a path to borrow much more money than it can afford.

There are many ways to measure a country's fiscal health, but the best overall gauge is federal debt relative to the size of our economy (the ratio of federal debt-to-gross domestic product, or debt-to-GDP). Many economists suggest maintaining a debt-to-GDP

The debt levels projected in the near future are unprecedented.



SOURCES: Data from the Congressional Budget Office Long-Term Budget Outlook: June 2011 and June 2009; and the Office of Management and Budget, The Budget of the United States Government: Fiscal Year 2012, February 2011. Compiled by PGPF. NOTE: Reflects debt held by the public to all federal debt held by individuals, corporations, state or local governments, and foreign entities.

ratio of no more than 60 percent, and they warn of danger if the ratio stays above 90 percent.

Right now our public debt is 70 percent of GDP. That's already very high, but the real threat is in front of us: If current policies continue, the U.S. debt-to-GDP ratio is on a trajectory to grow to a staggering 180 percent of GDP within 25 years.

Like any borrowing, growing federal debt brings more interest costs. Today we are already forced to spend \$220 billion each year on interest. But on our current path, interest payments will reach a staggering \$1 trillion per year in about 10 years and by 2030 would become the largest line item in the federal budget.

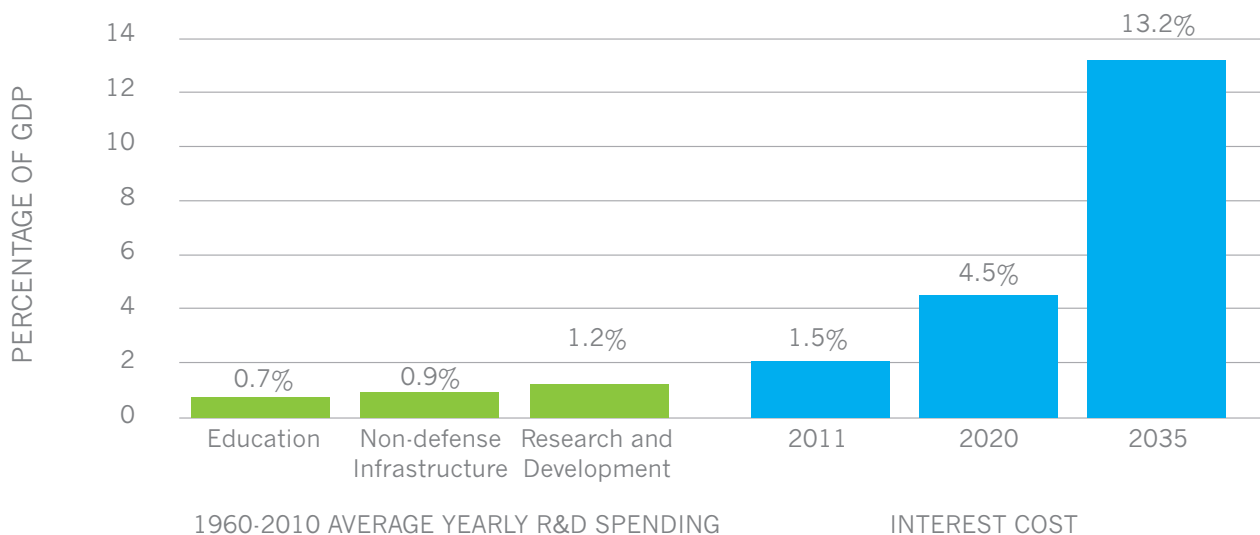
It's not difficult to understand why drowning in such large interest payments could hurt an economy, even

one as successful as ours. These payments make it virtually impossible for us to invest as much in our future, and will increasingly "crowd out" education, skills training, R&D, infrastructure, and other public and private investments that make our economy strong and our nation competitive. An economy cannot remain healthy and produce good jobs and wages if we are spending much more on interest than we are on investing in our future.

And the social safety net itself could be jeopardized – programs like Social Security and Medicare are bound to be cut without compassion in a fiscal crisis.

Given the very real impact of our national debt on our economy and our people, improving America's long-term budget outlook must be an urgent priority for our nation.

By 2035, projected interest costs on the debt will be more than four times what the federal government has historically spent on education, research and development, and infrastructure combined.



Sources: Data from the Office of Management and Budget, *Budget of the United States Government: FY 2012*, Feb. 2011, Gagnon & Hinterschweiger, *The Global Outlook for Government Debt over the Next 25 Years: Implications for the Economy and Public Policy*, PIIIE, June 2011. Compiled by PGPF.

THE SOLUTIONS

The good news is that our fiscal challenges can be overcome. A variety of initiatives, including the Simpson-Bowles commission, other task forces, and our foundation's policy projects, have all shown that this problem can be solved, and that if we do it soon, it can be done with fairness and compassion.

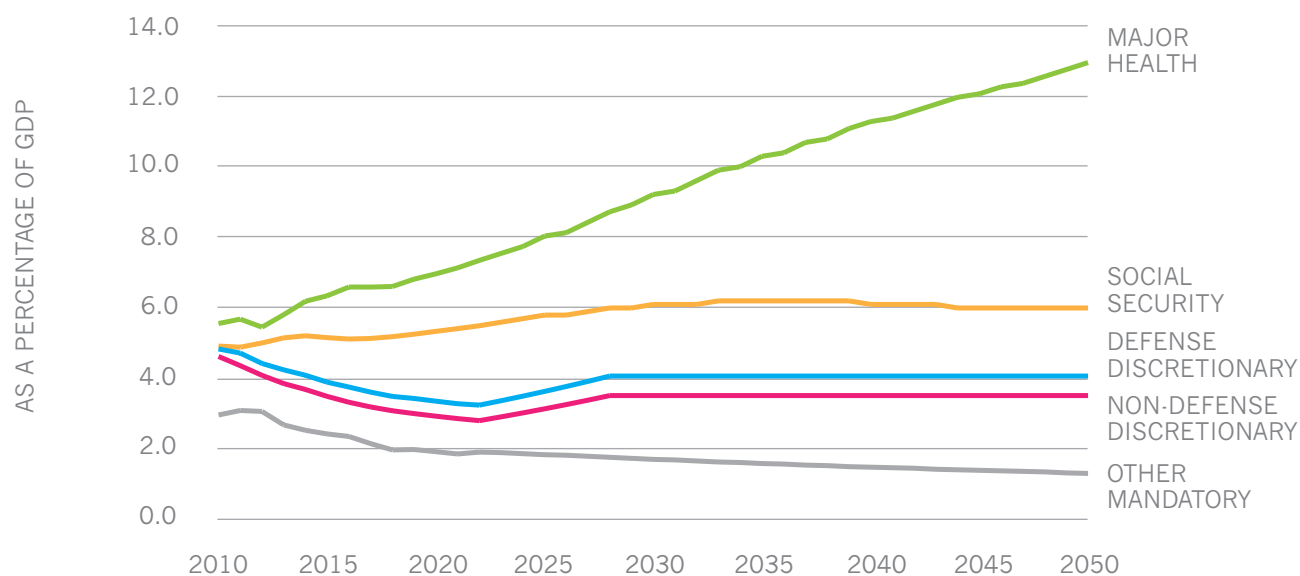
A credible fiscal plan must pass a simple test: does it stabilize debt-to-GDP at an affordable level over the long term? Various fiscal reforms can claim to reduce annual deficits by certain amounts, but in order to put the U.S. on a sustainable path we must stop the growth in debt.

To achieve this objective, a successful fiscal plan must be comprehensive and address the fundamental drivers of our long-term debt.

One is health care. Bringing more value to health care spending is absolutely essential, given that health care costs represent a major share of increasing federal expenditures. Today, we spend twice as much per capita as other advanced nations, yet our health outcomes are often no better. Making the overall health care system more efficient, while making changes to Medicare and Medicaid, is key to our economic and fiscal future. Gradually changing other entitlement programs like Social Security to make them secure and solvent for the long term is also an important component of fiscal reform.

Defense spending needs scrutiny, too. Today, we spend more on defense than the next 17 countries combined. We need to ensure that we fully address the threats of the 21st century, while acknowledging that our national security is highly dependent on our economic security and fiscal health.

The projected major driver of federal spending over the next several decades is the dramatic rise of spending on health care.



Source: Data from the Congressional Budget Office, *The Long-Term Budget Outlook: June 2010, alternative*. Compiled by PGPF.
 NOTE: "Federal Health Care Programs" include Medicare, Medicaid, CHIP, and exchange subsidies.

And any politically realistic and lasting bipartisan fiscal solution will require that revenues be on the table – as the Bowles-Simpson commission and others have recommended, paring back tax expenditures can not only contribute to deficit reduction, but can make it possible to lower tax rates and create a simpler tax code that is more conducive to growth.

Some say that now is not the time to deal with our long-term fiscal challenges, due to the current fragile recovery. But this is not an either/or proposition. Putting a long-term fiscal plan in place that goes into effect once the economy recovers is a sensible way to deal with recovery and sustainability at the same time. And taking this action now for the long term can also strengthen today's economic recovery by boosting confidence at home and abroad that the U.S. is finally getting its fiscal house in order. Confidence would be a valuable form of stimulus that our economy needs, but hasn't yet gained.

By committing ourselves to stabilizing the debt, we can lay a foundation for long-term growth, greater economic independence, and equitable solutions to the economic challenges facing generations of Americans. We can shape a positive vision of our nation's future and take the steps necessary to realize it.

This inaugural report chronicles our efforts to educate the public, build consensus in Washington, and mobilize Americans to take action and help lead the nation toward a sustainable fiscal future.

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