



PETER G. PETERSON FOUNDATION PROGRESS REPORT

2008 – 2011



BUILDING CONSENSUS
ON POLICY SOLUTIONS:
REACHING AGREEMENT
ON FISCAL SOLUTIONS WILL
REQUIRE TOUGH CHOICES
AND BOLD BIPARTISAN
COMMITMENTS. THROUGH
EDUCATION, ANALYSIS, AND
ACTION IN WASHINGTON AND
BEYOND, THE FOUNDATION
IS WORKING TO BUILD A
BIPARTISAN CONSENSUS
AROUND LONG-TERM FISCAL
SUSTAINABILITY.

CONVENING POLICYMAKERS AND EXPERTS TO ADDRESS THE FISCAL CHALLENGE

The Peterson Foundation's annual Fiscal Summits convene the nation's top leaders and experts to find common ground on solutions to America's long-term fiscal and economic challenges. The conversation began in 2010, when we focused on building awareness about the urgency of our fiscal challenges, and it continued in 2011, when our grantees brought specific solutions to the table.

The 2010 Fiscal Summit was held a day after the first meeting of the National Commission on Fiscal Responsibility and Reform, and it demonstrated that political leaders and economists on both sides of the political aisle recognize the urgency of our fiscal challenges.

Participants included former President Bill Clinton, former U.S. Senator Judd Gregg, former Director of the Office of Management and Budget Peter Orszag, former Secretary of the Treasury Robert Rubin, former Chairmen of the Federal Reserve Paul Volcker and Alan Greenspan, and National Commission on Fiscal Responsibility and Reform co-chairs Erskine Bowles and former U.S. Senator Alan Simpson. There was general agreement that long-term structural imbalances are a serious economic threat facing the nation and that it is imperative to address these imbalances sooner rather than later, while our options are more economically and politically palatable. Contributors identified rising health care costs as the most significant component of long-term structural deficits and urged reforms to the current system. They also discussed all of the revenue and spending options on the table, including reforms to entitlements, tax expenditures, and defense.

As part of the Summit, the Foundation released the results of a groundbreaking survey of senior economic



(TOP-BOTTOM) FORMER WHITE HOUSE CHIEF OF STAFF ERSKINE BOWLES AND FORMER U.S. SENATOR ALAN SIMPSON DISCUSS THE WORK OF THE NATIONAL COMMISSION ON FISCAL RESPONSIBILITY AND REFORM.



(LEFT) FORMER OMB DIRECTOR PETER ORSZAG RESPONDS TO QUESTIONS ABOUT HEALTH CARE'S IMPACT ON THE NATION'S FISCAL SITUATION. (RIGHT) FORMER FEDERAL RESERVE CHAIRMAN ALAN GREENSPAN LAYS OUT THE EFFECTS OF INCREASING DEBT.

officials from the previous eight presidential administrations and Congressional leaders from the past 30 years. An astounding 84 percent of Republican and Democratic respondents agreed that a failure to address the country's long-term structural deficit challenges would lead to another economic crisis in the next ten years. Seventy-four percent of respondents also broadly agreed that solutions must include both spending cuts and tax increases, and 89 percent believed that a plan to address long-term deficits should be agreed to within one to two years.

On May 25, 2011, the Peterson Foundation hosted its 2011 Fiscal Summit: Solutions for America's Future, in Washington, D.C. The forum featured leading thinkers and policymakers, including Obama administration officials, members of Congress, budget experts, journalists, and business leaders, who offered a range of views about solving the nation's long-term fiscal challenges.

The Summit was the culmination of the Foundation's Solutions Initiative, a grant program supporting six organizations across the ideological and generational spectrum to develop plans with specific solutions to the nation's projected long-term debt and deficits. In addition to the plan presentations, program highlights included:

- A conversation with former President Bill Clinton on the positive economic effects of debt reduction

- and the need for both parties and their supporters to seriously consider ideas advanced by the other;
- Interviews with House Budget Committee Chairman Paul Ryan and National Economic Council Director Gene Sperling on their visions of reform, particularly in regard to Medicare;
- An interview with Indiana Governor Mitch Daniels on lessons he learned in building public support to address deficits on a state level;
- A panel discussion with U.S. Senators Saxby Chambliss, Mike Crapo, Dick Durbin, and Mark Warner about their efforts to craft a bipartisan plan to address our long-term challenges through the "Gang of Six" and
- A discussion of Americans' attitudes about deficit reduction and appetite for change with former U.S. Senator Alan Simpson, *New York Times* columnist David Brooks, Honeywell CEO David Cote, Demos Vice President of Policy and Programs Tamara Draut; and *The Atlantic's* business and economics editor Megan McArdle.

Both of the annual Fiscal Summits were televised via C-SPAN to a national audience of politically engaged Americans. They reflect the Foundation's commitment to engaging a broad range of stakeholders in a practical dialogue on the nation's fiscal challenges and driving action to resolve them.



(TOP LEFT) FORMER CHAIRMAN OF THE FEDERAL RESERVE PAUL VOLCKER DISCUSSES THE IMPORTANCE OF FINDING LONG-TERM SOLUTIONS THAT ADDRESS BOTH SPENDING AND REVENUE. (TOP RIGHT) FORMER SECRETARY OF THE TREASURY ROBERT RUBIN DESCRIBES THE EFFECTS OF OUR UNSUSTAINABLE DEFICITS AND DEBT ON PUBLIC AND PRIVATE INVESTMENT. (BOTTOM) FORMER OMB DIRECTOR ALICE RIVLIN AND ECONOMIC POLICY INSTITUTE PRESIDENT LAWRENCE MISHEL DISCUSS POTENTIAL SOLUTIONS TO THE NATION'S ECONOMIC AND FISCAL CHALLENGES.



(TOP LEFT) *NEW YORK TIMES* COLUMNIST DAVID BROOKS DISCUSSES THE CULTURAL AND POLITICAL CHALLENGES OF FINDING A SOLUTION TO THE DEBT. (TOP RIGHT) INDIANA GOVERNOR MITCH DANIELS DISCUSSES HIS EXPERIENCE WITH FISCAL REFORM ON A STATE LEVEL. (BOTTOM) MODERATOR JUDY WOODRUFF DISCUSSES THE DEFICIT REDUCTION EFFORTS OF THE “GANG OF SIX” WITH U.S. SENATORS SAXBY CHAMBLISS, MARK WARNER, MIKE CRAPO, AND DICK DURBIN.



(TOP) FORMER PRESIDENT BILL CLINTON DISCUSSES THE IMPORTANCE OF FISCAL SUSTAINABILITY TO AMERICAN COMPETITIVENESS IN AN INTERVIEW WITH PBS' GWEN IFILL. (BOTTOM LEFT) HOUSE BUDGET COMMITTEE CHAIRMAN PAUL RYAN LAYS OUT HIS DEFICIT REDUCTION PLAN. (BOTTOM RIGHT) NATIONAL ECONOMIC COUNCIL DIRECTOR GENE SPERLING DISCUSSES THE OBAMA ADMINISTRATION'S PERSPECTIVE ON FISCAL REFORM.

BLUEPRINTS FOR FISCAL ACTION FROM ACROSS THE IDEOLOGICAL SPECTRUM

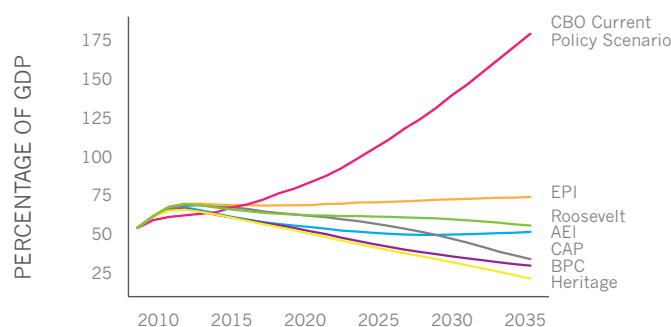
Washington and the public generally accept the need to reduce projected long-term debt and deficits – the next step is to develop credible plans for reaching that goal. The Peterson Foundation’s Solutions Initiative provided grants to six public policy research organizations across the ideological and generational spectrum to present their vision of how to put America on a sustainable long-term fiscal path.

In January 2011, the Peterson Foundation launched the Solutions Initiative, a grant program that convened six organizations from across the ideological and generational spectrum to develop solutions to the nation’s projected long-term debt and deficits.

The Foundation awarded grants to six leading public policy organizations – the American Enterprise Institute, the Bipartisan Policy Center, the Center for American Progress, the Economic Policy Institute, The Heritage Foundation, and the Roosevelt Institute Campus Network – and asked them to develop and present their vision to address our fiscal challenges. The groups were given independence and discretion to define the fiscal goals and craft comprehensive plans to achieve them. We then asked the nonpartisan Tax Policy Center and other experts to score and compare what the various plans would achieve in 2021 and 2035.

After considering the many tradeoffs that go into producing a budget, the organizations produced plans reflecting their individual philosophies. Importantly, *they all significantly reduced debt-to-GDP* projections when measured against an extended version of the Congressional Budget Office baseline. By 2035, the plans would reduce debt levels to between 30 and 80 percent of GDP.

SOLUTIONS INITIATIVE PROJECTED DEBT LEVELS



Even though the grantees demonstrated significant differences over the size and role of government, their plans showed a remarkable consensus on several key priorities. Most importantly, all of the grantees acknowledged that America’s current fiscal path is unsustainable and recommended policies that would reduce the projected federal debt. Additionally, they agreed that we must preserve a social safety net for those who need it, and that we cannot continue to subsidize the well-off the way we currently do. Lastly, they concurred that so-called tax expenditures – tax deductions, exclusions, and credits that act as disguised spending and cost the federal government \$1.3 trillion each year – are fertile ground for reform that greatly simplifies the system, and lowers tax rates for corporations and individuals.



POLICY EXPERTS FROM SOLUTIONS INITIATIVE GRANTEE ORGANIZATIONS DISCUSS THEIR DEFICIT REDUCTION PLANS WITH *WALL STREET JOURNAL* EDITOR DAVID WESSEL. (L-R: WESSEL; ALAN VIARD, AMERICAN ENTERPRISE INSTITUTE; JOE MINARIK, BIPARTISAN POLICY CENTER; MICHAEL ETTLINGER, CENTER FOR AMERICAN PROGRESS; JOHN IRONS, ECONOMIC POLICY INSTITUTE; STUART BUTLER, THE HERITAGE FOUNDATION; ZACHARY KOLODIN, THE ROOSEVELT INSTITUTE CAMPUS NETWORK)

The Solutions Initiative grantees presented their plans together at the Foundation's 2011 Fiscal Summit, explaining their respective approaches to resolving the nation's debt and deficit challenges and highlighting areas of agreement and disagreement. Later in the year, we worked with our Solutions Initiative partners to convene a series of bipartisan briefings for members of Congress and their staffs, so they could better understand the detailed policies within the plans.

The fact that a broad range of experts agree on the fiscal imperative underscores that consensus is possible, even if individual approaches to solving America's fiscal challenges differ.



BIPARTISAN POLICY CENTER



ADDRESSING THE HEALTH CARE CHALLENGE

Individuals and experts from across the political spectrum agree that America's rapidly rising health care costs are unsustainable. The Peterson Foundation is working with organizations including the Institute of Medicine and the Center for American Progress to drive health care solutions that deliver better value by improving quality and lowering costs.

According to the Congressional Budget Office, total private and public health care spending in the United States is projected to soar more than 50 percent by 2035, consuming 27 percent of GDP. The U.S. currently spends twice as much per capita as most other advanced nations on health care. But despite these massive resources, U.S. health outcomes are generally no better and sometimes worse than outcomes in other advanced countries. For example, the U.S. is 31st in infant mortality and 27th in life expectancy. Not only are we failing to achieve good results, but our huge levels of spending threaten the fiscal sustainability of the nation.

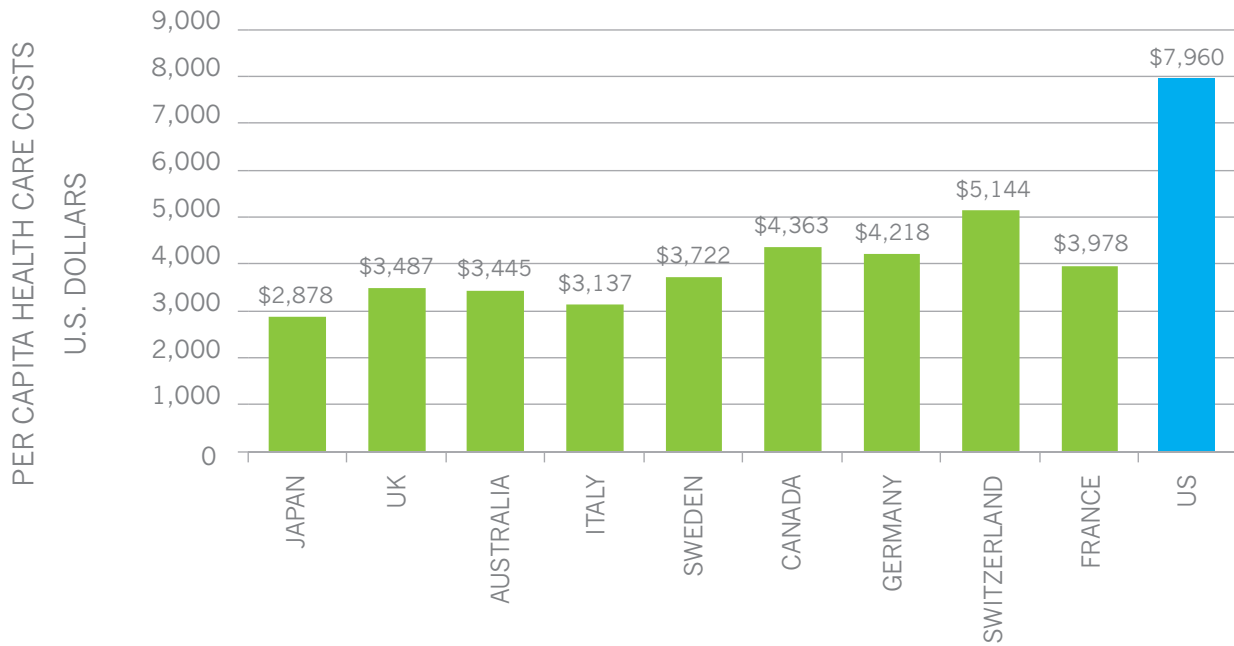
In 2009, the Peterson Foundation joined with the Institute of Medicine (IOM) to bring together medical professionals, hospital administrators, economists, consumer representatives, and insurers to identify the elements of the health care system that provide the most value, reduce inefficiency, and deliver proven care. A resulting report, *The Healthcare Imperative: Lowering Costs and Improving Outcomes*, presents options for reducing U.S. health care expenses by 10 percent in 10 years, while improving the quality of care. Suggested strategies include making the health care system more patient-centered, reforming payment systems, and increasing transparency and accountability. The report was shared with leading experts, practitioners, and stakeholders throughout the health care sector.

The Foundation has worked extensively with a number of other organizations to help improve the American health care system. In November 2008, we collaborated with Emory University's Institute for Advanced Policy Solutions to establish the Center for Entitlement Reform, charged with outlining the factors responsible for rising entitlement costs. In July 2009 and May 2010, the Foundation issued grants to the Institute for Healthcare Improvement to sponsor symposia on health care costs and delivery.

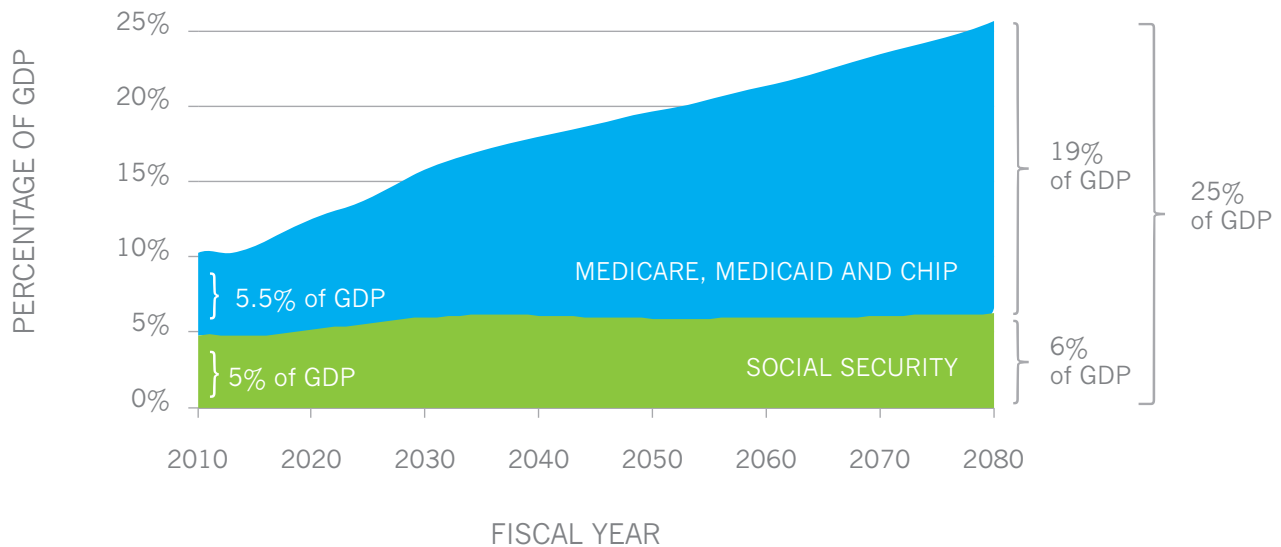
A 2010 grant to the Center for American Progress funded an exploration of payment reforms to reduce overall health care costs by shifting away from the fee-for-service payment model that encourages over-consumption of health care by patients and over-treatment by doctors and hospitals. The Foundation also worked with the Center for Practical Bioethics to form the Coalition to Transform Advance Care, a consortium of leading organizations, led by former AARP CEO William Novelli, that empowers patients and their families and engages health care providers in efforts to improve care for people who are seriously ill and dying.

Health care will continue to be a central focus of the Foundation's work – a new initiative is being planned to focus directly on this key element of our fiscal challenge.

Currently, Americans spend about twice as much per capita on health care as other OECD countries with no appreciable difference in health outcomes.



Health care entitlement programs are projected to more than triple as a percentage of GDP under current policies.



SOURCE: Data from OECD. Compiled by PGPF. NOTE: Per capita health expenditures in 2009, unless otherwise noted. Comparison uses Purchasing Power Parity, which adjusts exchange rates to assume identical price of goods in different countries. SOURCE: Data from the Congressional Budget Office, The Long-Term Budget Outlook: June 2010, alternative simulation. Compiled by PGPF.

ALIGNING NATIONAL SECURITY WITH ECONOMIC SECURITY

A healthy U.S. economy is the foundation on which our national security is built – a sustainable budget and a strong defense go hand-in-hand. The Peterson Foundation is convening top defense experts to align the U.S. defense budget with 21st century national security threats and strategies.

Defense spending accounts for nearly 20 percent of the U.S. budget and nearly five percent of the nation's gross domestic product – more than twice what many other advanced nations spend as a percentage of GDP. In fact, the United States devotes more resources to defense than the next 17 highest-spending nations *combined*.

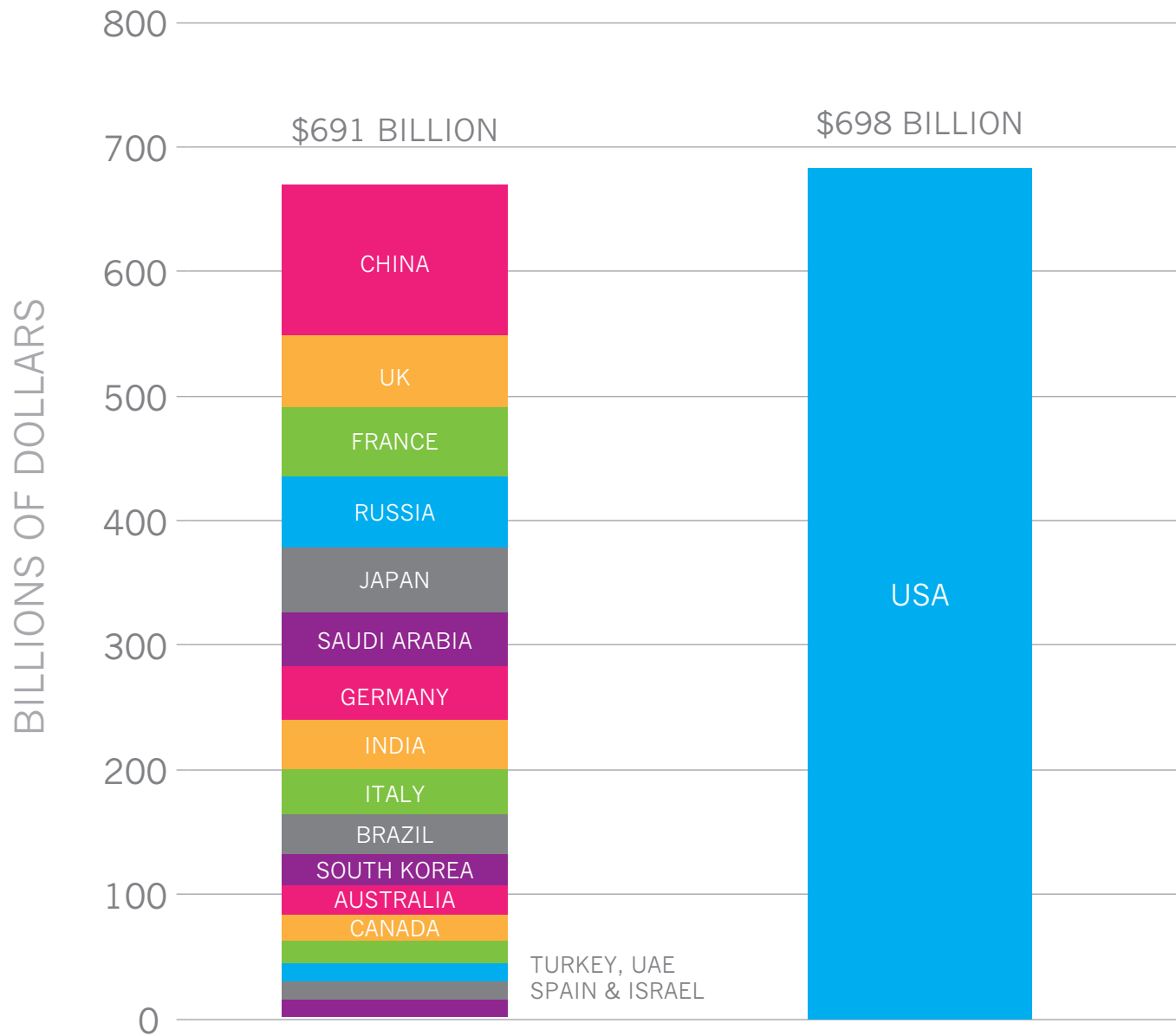
Despite the significance of the defense budget, defense spending often escapes close fiscal and strategic scrutiny. Policymakers need to ask: Are today's spending priorities appropriate to the security threats of the 21st century? The United States faces a landscape of new threats and meeting them will require a comprehensive review of national security that addresses today's challenges, not yesterday's.

Furthermore, to marshal the resources necessary to adequately defend America's national interests and keep Americans safe, our nation must be on sound fiscal and economic footing. In today's global economy, our national security depends directly on our economic security. Admiral Mike Mullen, former Chairman of the Joint Chiefs of Staff, has said, "The single greatest threat to our national security is our debt." He also noted, "The [Pentagon] budget has basically doubled in the last decade, and in doubling, we have lost the ability to prioritize, to make hard decisions, to do tough analysis, to make trades."

How can America navigate the dual challenges of military preparedness and, at the same time, major fiscal constraints? One clear answer is for our nation to frame a new national security strategy. To do so, we need a clear understanding of the risks facing us in the 21st century. With these risks and the related costs in mind, we can develop the strategy and missions to counter and reduce them. And with the strategy in hand, we can begin to make sensible and coherent reductions in the defense budget.

With this in mind, the Peterson Foundation has joined with the Henry L. Stimson Center to gather distinguished national security experts to begin working on a new defense strategy for the U.S. Barry Blechman, co-founder of Stimson, is serving as Project Director and Leslie Gelb, former Assistant Secretary of State for Political and Military Affairs and President Emeritus of the Council on Foreign Relations, is serving as a consultant to the Foundation. The project will produce a report that, based on the group's assessment of current interests and threats, offers strategies and force structures to keep America safe, while acknowledging that our national security requires us to be on a sustainable fiscal path.

The U.S. spent more on defense in 2010 than the countries with the next 17 highest defense budgets combined.



SOURCE: Data from Stockholm International Peace Research Institute, SIPRI Military Expenditure Database. Compiled by PGPF.
 NOTE: Dollar figures are in billions of 2010 constant U.S. dollars.

BUILDING MOMENTUM FOR POLICY ACTION

Working with key Washington advocates such as the Committee for a Responsible Federal Budget, the Peterson Foundation keeps the pressure on for sustainable fiscal policy through collaborative projects such as The Moment of Truth Project and the Peterson-Pew Commission on Budget Reform.

Seeking to spur action on America's challenges following their work on the President's National Commission on Fiscal Responsibility and Reform, co-chairs Erskine Bowles and Alan Simpson founded The Moment of Truth Project in March 2011. Building on our initial support of the Commission's work, the Peterson Foundation, along with other organizations, provided funding for The Moment of Truth.

When a bipartisan majority, including several elected officials, voted for the Fiscal Commission's final report (entitled *The Moment of Truth*), it served as a clear indication that bipartisan agreement on a comprehensive long-term deficit reduction plan is possible. Making it a reality requires leadership and tough choices from the President and members of Congress, as well as continued support for reforms among the voting public.

The Moment of Truth Project has continued to build momentum for comprehensive long-term reform, with key commissioners testifying before Congress and engaging the President, administration officials, and Congressional leaders, including the bipartisan group of six U.S. senators, commonly referred to as the "Gang of Six." Importantly, the Moment of Truth Project is speaking to the public, explaining the facts about our fiscal challenges, answering questions, and laying out the possible paths to a solution.

In addition, to encourage a deeper examination of how the federal budget process impacts America's fiscal outlook, the Foundation, in conjunction with the

Pew Charitable Trusts, provided funding to establish the Peterson-Pew Commission. The Commission convened federal budget and fiscal policy experts, including former directors of the Congressional Budget Office and the Office of Management and Budget, and former chairmen and ranking members of the House and Senate Budget Committees. They released two comprehensive reports: the first, *Red Ink Rising*, offered a six-step plan for stabilizing our national debt; the second, *Getting Back in Black*, provided a set of specific, detailed reforms to the federal budget process, including adopting fiscal targets, instituting triggers in case goals are not met, and increasing transparency. Both reports have been influential in persuading policymakers to focus on the bigger budget picture, incorporating ideas for significant budget process reforms to bring stability and credibility to the nation's finances.

Recognizing that state budgets are also facing serious challenges, the Peterson Foundation supported the launch of the State Budget Crisis Task Force, led by former New York lieutenant governor Richard Ravitch and former Federal Reserve Chairman Paul Volcker. The goal of the Task Force is to ensure that state structural budget gaps and fiscal challenges are discussed publicly, covered by the national media, and considered in both state and federal budget debates. The Task Force is conducting research in five study states – California, Illinois, New York, Texas, and Virginia – to advance understanding of the issues impacting state budgets and help to improve budgeting and transparency.

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