



Peter G. Peterson
Foundation

Our America. Our Future.

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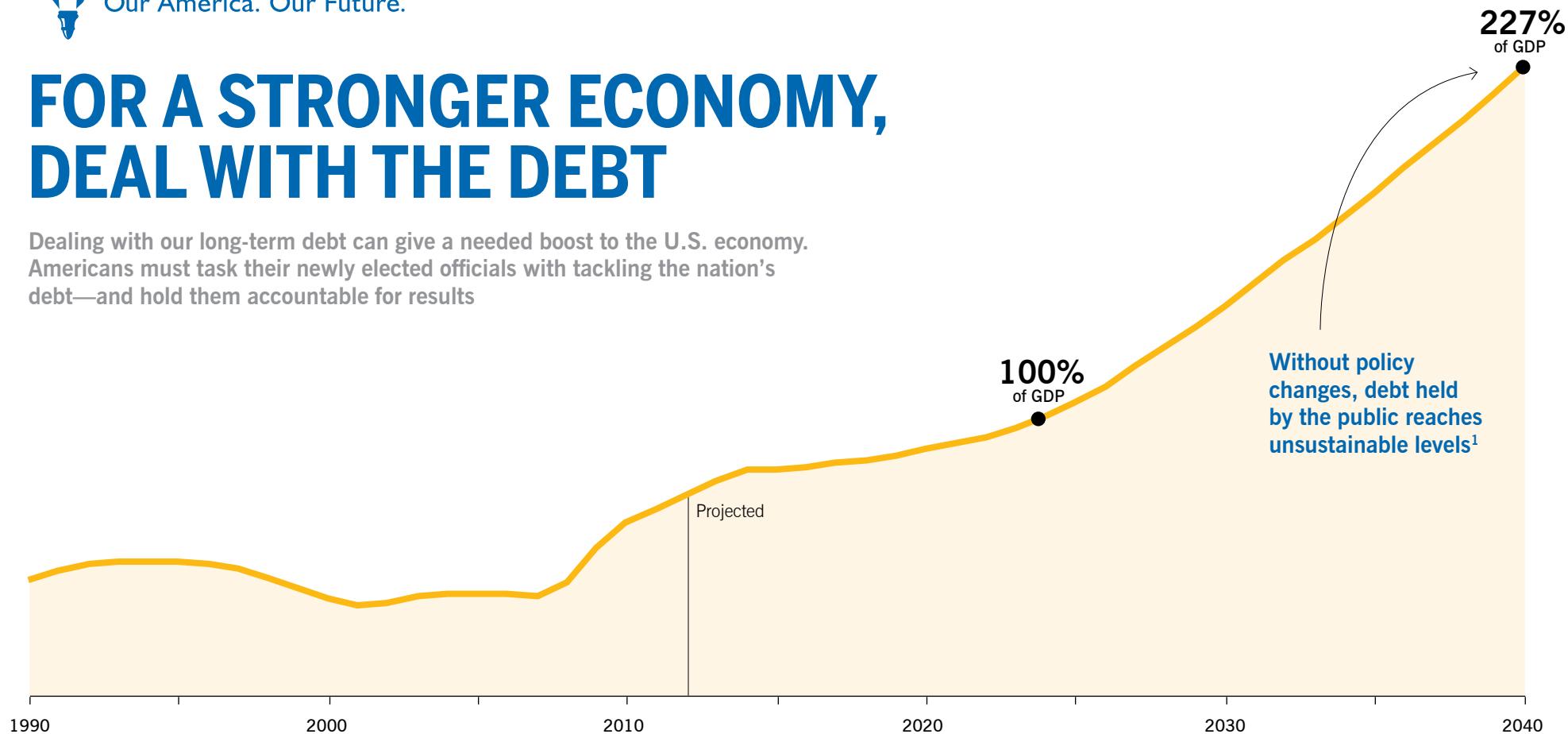
In the months leading up to the 2012 election, the Peter G. Peterson Foundation partnered with *Bloomberg Businessweek* to create a series of advertisements that were intended to provide facts about the long-term fiscal challenges faced by the U.S., to ensure that fiscal and economic issues were front and center throughout the election, and to encourage bipartisanship after Election Day. The ads ran in the August 27th, October 1st, November 5th and November 12th issues of *Bloomberg Businessweek*, and were also featured in special editions of Bloomberg Government distributed at both the Republican and Democratic National Conventions. Seen by *Bloomberg Businessweek's* 980,000 global subscribers and 40,000 delegates at the conventions, these ads helped to keep national discussion focused on how elected officials can overcome partisan divides and get America back on a sustainable fiscal path.

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FOR A STRONGER ECONOMY, DEAL WITH THE DEBT

Dealing with our long-term debt can give a needed boost to the U.S. economy. Americans must task their newly elected officials with tackling the nation's debt—and hold them accountable for results



The conventions are here. The nominees are set. The election is entering the home stretch, and we know that the economy will top the agenda of issues. Our country has been through a lot: wars, financial crises, the deepest recession in generations and a recovery that is still too sluggish.

We'll hear a lot of ideas in this campaign, but one action in particular can provide a big boost to our economy: dealing with our government's structural debt problem.

One of the reasons the recovery is struggling to take hold is that businesses lack confidence to grow and invest for the future. Individuals, faced with job worries and depressed home values, lack confidence, too.

Our growing debt undermines confidence. It's now 70 percent of the size of our economy, and projected to soar to more than 225 percent in the future. That level of debt is absolutely unsustainable. Many economists suggest that debt above 90 percent is risky for growth; Greece began to falter at 130 percent.

The debt crisis is not the fault of either political party. We all share responsibility,

and all have a role in reducing our long-term debt. Fixing this problem doesn't mean we need huge, immediate spending cuts or tax increases that could hurt economic growth. Instead, we need a serious long-term plan to deal with the major causes of our growing debt—for example, runaway health care and entitlement costs as baby boomers begin to retire in large numbers and are living much longer; a messy, broken



FixtheDebt

"This isn't about rigid ideological views on taxes or entitlements. It's about facts and math. Both sides need to face up to reality and show some real leadership, and voters are thirsting for that. Our country, our economy and our future depend on it."

—Senator Alan Simpson, Co-Founder, Fix the Debt Campaign and Co-Chair, National Commission on Fiscal Responsibility and Reform

ANDREW HARRER, JAY MALLIN/BLOOMBERG

tax system that doesn't raise enough revenue; defense spending that is not prioritized to 21st-century threats; and ballooning interest payments that threaten to crowd out critical investments in our economy.

An agreed-upon plan with real, reasonable deficit-reduction targets that gets implemented when the economy strengthens will provide an immediate boost of confidence. Long term, dealing with our debt problem will mean more for public and private investments—including skills training, education, R&D and infrastructure—that build a more prosperous nation, and Social Security and Medicare systems that are sustainable.

The alternative if we don't fix this problem? A slow-growth crisis in which the



FixtheDebt

"We face the most predictable economic crisis in our history. Fortunately, it is also the most avoidable. If we want to preserve our ability to make investments that are critical to our economic future, we need to act."

—Erskine Bowles, Co-Founder, Fix the Debt Campaign and Co-Chair, National Commission on Fiscal Responsibility and Reform

economy struggles under soaring interest payments, skyrocketing taxes and plummeting investments in the future. Or, a major fiscal crisis, in which sudden, painful cuts hit even the most vulnerable.

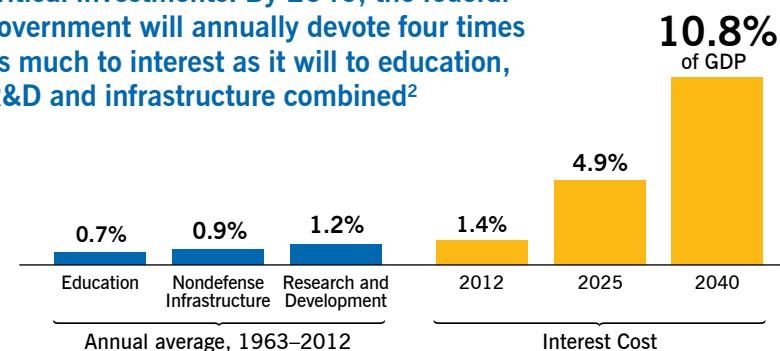
Why let that happen when we know how to avoid it?

The leaders we elect can improve our economy by dealing with the debt, but they will have to work together to put us on the

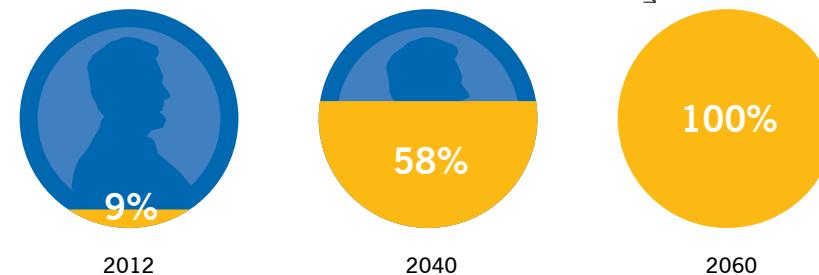
path to long-term fiscal health and economic prosperity. And all Americans must hold them accountable for results.

We at the Peter G. Peterson Foundation are committed to bringing both parties together to find a long-term solution to our national debt. It will take bold leadership and a clear sign of support from the American people. But isn't that what elections are supposed to be about? ●

Interest costs threaten to crowd out critical investments. By 2040, the federal government will annually devote four times as much to interest as it will to education, R&D and infrastructure combined²



On our current path, interest costs will take up more and more federal revenue. Eventually, every dollar of revenue would be needed for interest³

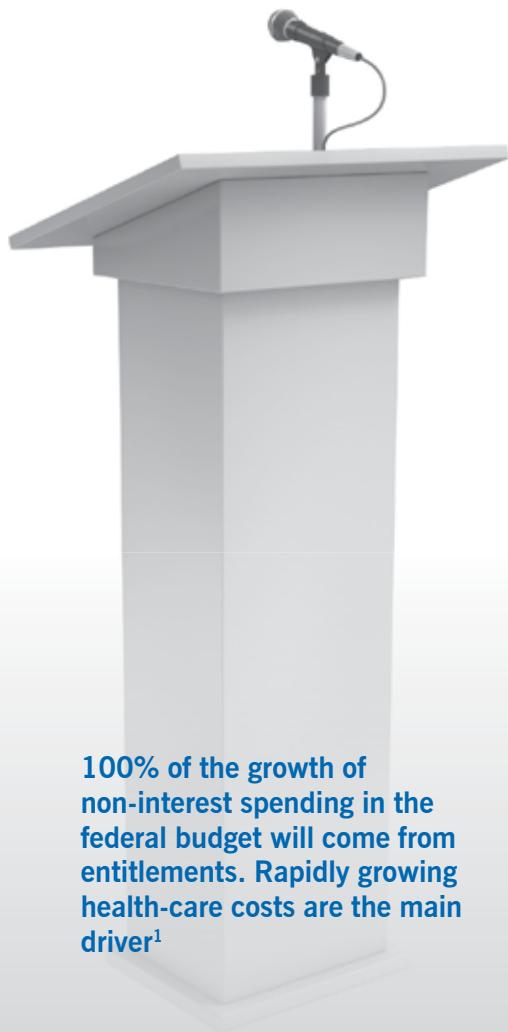


¹ Sources: Data from the Congressional Budget Office alternative fiscal scenario, The 2012 Long-Term Budget Outlook, June 2012. Compiled by PGPF. Note: "Debt held by the public" refers to all federal debt held by individuals, corporations, state or local governments, and foreign entities.
² Sources: Data from Office of Management and Budget, The President's Budget for Fiscal Year 2013, February 2012; and the Congressional Budget Office alternative fiscal scenario, The 2012 Long-Term Budget Outlook, June 2012. Compiled by PGPF.
³ Sources: Data from PGPF's Long Term Model of the Federal Budget, alternative baseline assumptions. Compiled by PGPF.



THERE'S NO DEBATE: PRESIDENTIAL CANDIDATES MUST ADDRESS DEBT

As President Obama and Former Governor Romney square off in the presidential debates, fiscal and economic issues top the agenda. How would each candidate fix the debt and put America on a more sustainable fiscal path? We asked experts on both sides of the aisle to weigh in on the challenges that must be addressed



Given the fragile state of the economy, why focus on the long-term debt problem now?

We can't escape the long-term debt problem. The longer we wait to deal with it, the greater the uncertainty, with growing risks to financial markets. At the same time, we can't practically deal with the problems all at once, impacting the sluggish economy. What we can do—what we must do—as a matter of first priority, is agree on a plan that over time will bring our exploding debt under control. That will provide the strong signal we need that our political parties can work together to deal with the looming threat of unmanageable public debt.



Paul Volcker,
Former Chairman of the
Federal Reserve Board

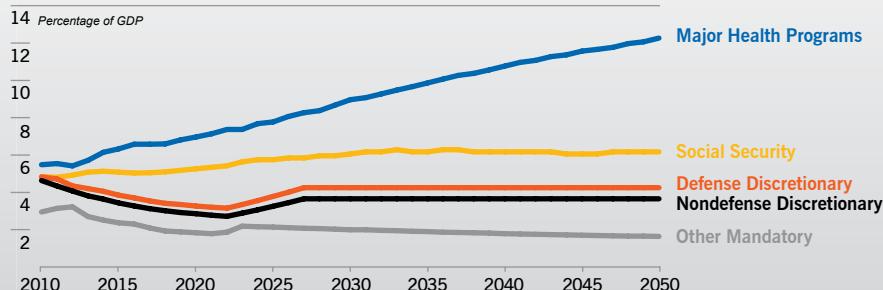
Can the debt problem be solved without reforming Social Security, Medicare and Medicaid?

To solve the long-term debt problem, everything has to be on the table. Without changes, Social Security, Medicare and Medicaid simply aren't sustainable. Reforms can be made in gradual ways that protect the vulnerable. Because health-care costs are growing faster than the economy and consuming a larger and larger share of the federal budget, a comprehensive fiscal plan has to include reforms to federal health spending. These reforms should reduce spending across the entire health-care system, not simply shift the federal government's costs to individuals, employers or state and local governments.



Alice Rivlin,
Former Director, White House
Office of Management and
Budget

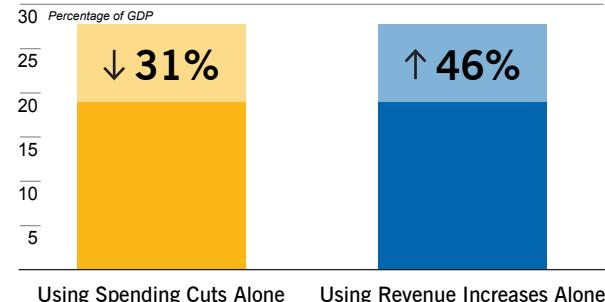
100% of the growth of non-interest spending in the federal budget will come from entitlements. Rapidly growing health-care costs are the main driver¹



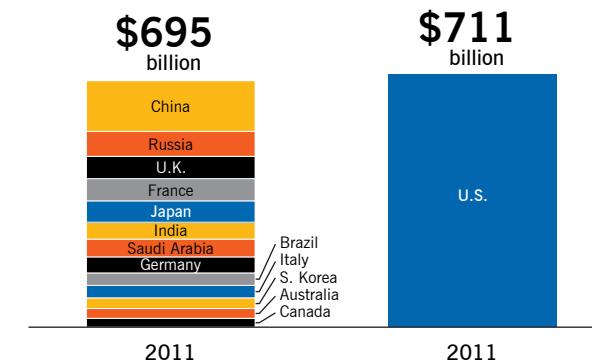
Stabilizing our national debt through spending cuts or revenue increases alone would require draconian and unprecedented policy changes²

Using spending decreases alone to stabilize the debt, we would need to permanently cut the budget by 31%

Using revenue increases alone to stabilize the debt, we would need to permanently raise taxes by an additional 46%



In 2011, the U.S. spent more on defense than the next 13 countries combined³



Can the debt problem be solved by spending cuts alone, or do some type of revenue increases need to be considered?

Even with the necessary spending cuts, it will be hard to meet the demands put on federal spending by an aging population and rising health-care costs without more revenue. Over the next 25 years, the number of elderly Americans will surge by about 80 percent—and they will rely on programs like Social Security and Medicare. The best way to raise revenue is with tax reform that simplifies the tax code and improves economic efficiency by limiting tax deductions and loopholes.



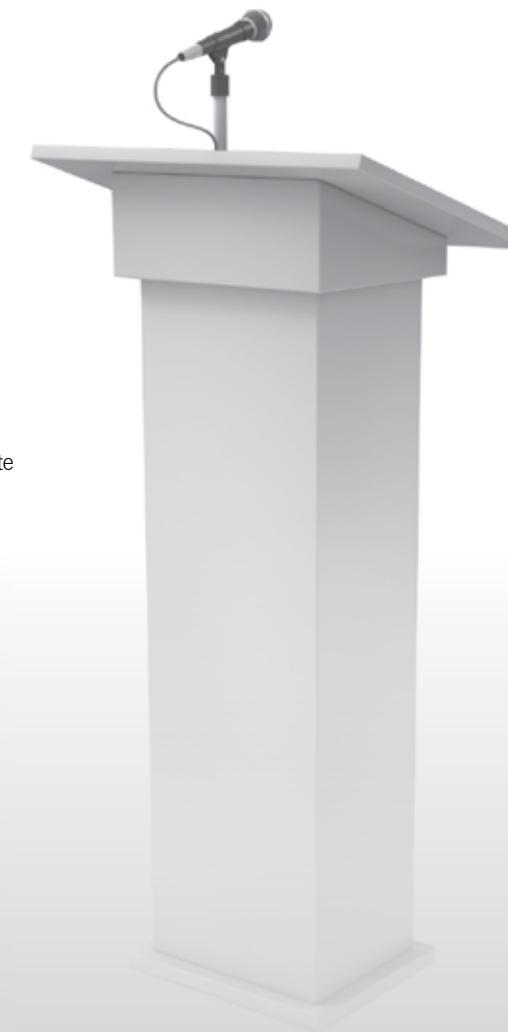
Former Sen. Judd Gregg
(R-NH), Former Chairman of
the Senate Budget Committee

Can defense spending be reduced while still protecting America's military and global interests?

Absolutely. Reducing defense spending should be part of any comprehensive plan to stabilize the federal debt, which is essential to revitalizing our economy and putting it on a sustainable path. And the fact is we cannot afford a strong military without a strong economy. The key is to reduce the Pentagon's budget the right way. That means doing it with a strategy attuned to today's threats and challenges, not yesterday's. It also means cutting waste protected by special interests. Done that way, the U.S. can maintain its military superiority and keep us secure.



Les Gelb,
President Emeritus,
Council on Foreign Relations



¹ Sources: PGPF projections using data from the Congressional Budget Office, The 2012 Long-Term Budget Outlook, June 2012. Note: Health-care programs include Medicare, Medicaid, Children's Health Insurance Programs (CHIP) and the health-care exchange subsidies.

² Sources: Data from the Congressional Budget Office, The 2012 Long-Term Budget Outlook, June 2012. Compiled by PGPF. Note: Spending refers to non-interest spending. The amounts shown are the spending cuts or revenue increases from projected levels required to keep debt-to-GDP no higher than the 2012 level over the next 75 years.

³ Sources: Data from Stockholm International Peace Research Institute, SIPRI Military Expenditure Database. Compiled by PGPF. Note: Dollar figures are in billions of 2011 U.S. dollars.



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AMERICA CHOOSES A PRESIDENT AND CONGRESS. NOW IT'S THEIR TURN TO MAKE SOME CHOICES

No matter who wins the elections, the choice is between bipartisan progress to solve America's debt problem, or more gridlock and economic decline

For too long in Washington, D.C., many Democrats and Republicans have staked out positions that don't allow for meaningful compromise. But with the election season winding down, the time has come for leaders in Washington to make a fundamental choice: They can embrace the opportunity to work together and find solutions to our growing national debt,

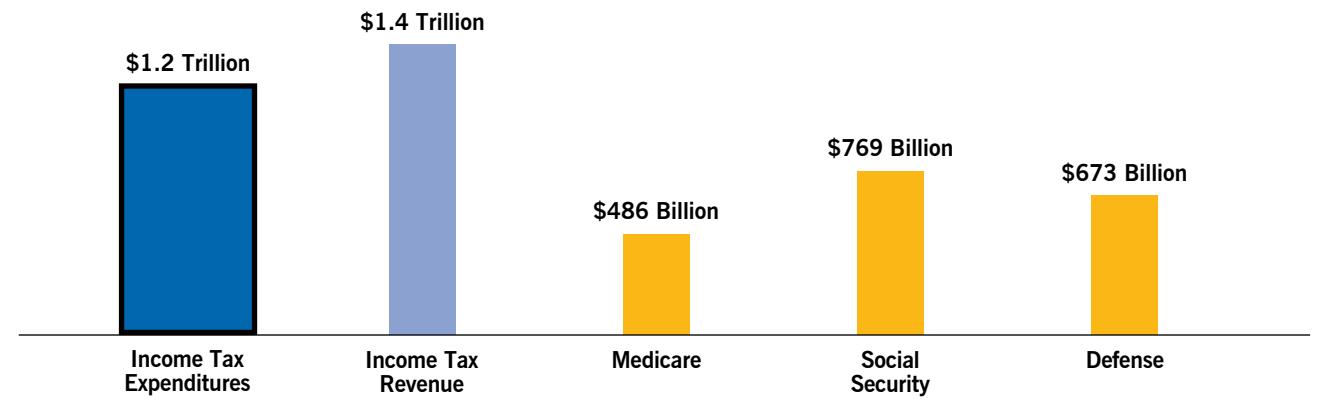
or continue with partisan gridlock that will lead to competitive decline, and potential fiscal and economic crises.

Over the next several weeks, as the President and Congress confront the "fiscal cliff," they will have a big opportunity to make the right choice. Leaders on both sides of the aisle can make the right choices about a range of policy issues that

have long-term implications for the federal budget and the U.S. economy.

- The choice is between a health-care system in which costs continue to rise unsustainably, pushing Medicare and Medicaid to the breaking point, taking a bigger bite out of small-business budgets and depleting family savings—or a sustainable system that reins in spending while

The federal government gives up about as much revenue from tax expenditures (such as loopholes, deductions, exclusions and credits) as it collects in all personal and corporate income taxes. And tax expenditures cost more than Medicare, Social Security or Defense³



maintaining or improving high-quality health care, and gives more cost certainty to seniors, businesses, employees, and the federal and state governments.

- The choice is between a tax code that is too complex, full of special-interest loopholes, deductions, exclusions and credits (also called tax expenditures), and doesn't produce enough revenue to meet our needs—or a

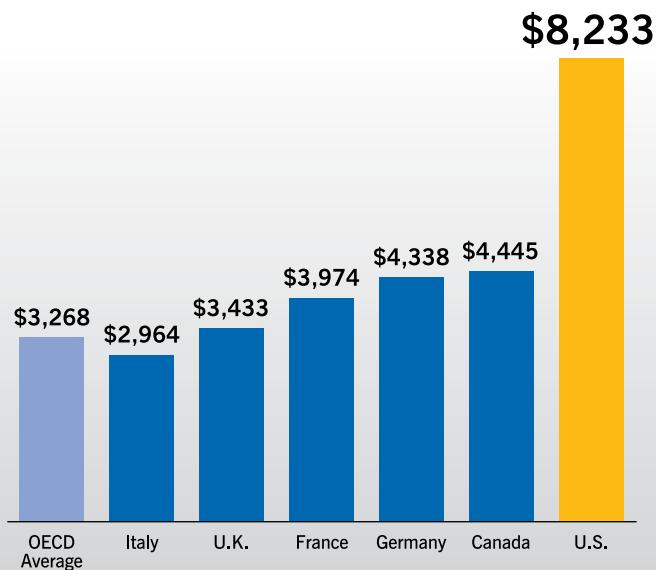
new tax system that is simpler and pro-growth, broadens the base to provide the revenue we need to keep deficits in check, and reflects the best ideas of both parties.

- The choice is between defense spending reductions carried out haphazardly without regard to America's most important national security needs, which neither party likes—or a review of our national

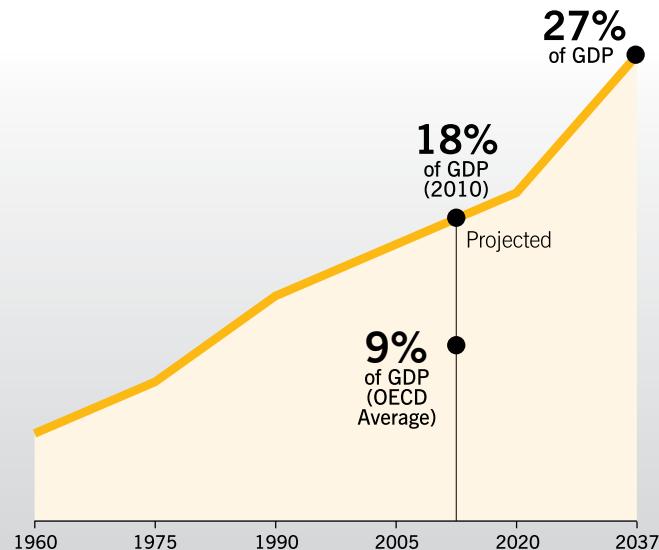
security priorities that lays a foundation for smart, sensible, strategic defense spending that responds to the threats of today and tomorrow, not yesterday.

Both parties agree that our growing national debt is a problem. Now our leaders have a choice: bipartisan compromise and progress, or more debt and economic decline. ●

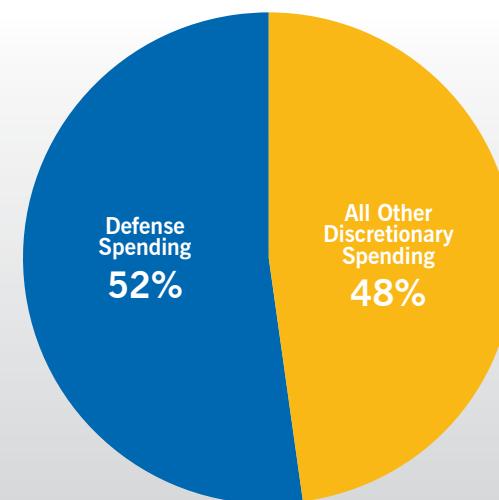
We spend much more per person on health care than other nations spend¹



Worse yet, health care is predicted to take up more and more of our economy²



Defense is a large portion of discretionary spending; we should review it based on today's threats, not those of the past⁴



Includes veterans' affairs, education and training, transportation, justice, homeland security and other programs

¹Sources: Data from OECD. Compiled by PGPF. Note: Per capita health expenditures are for the year 2010, unless otherwise noted.
²Sources: Data from the Centers for Medicare and Medicaid, National Health Expenditures, June 2012; and the Congressional Budget Office, The 2012 Long-Term Budget Outlook, June 2012. Compiled by PGPF. Note: CMS data used for years 1960 – 2020. The 2037 figure reflects the latest available projections from CBO.
³Sources: Data from the Congressional Budget Office, Updated Budget Projections: Fiscal Years 2012 to 2022, March 2012; Donald B. Marron, "How Large Are Tax Expenditures? A 2012 Update", Tax Policy Center Tax Facts, April 2012. Note: All figures reflect fiscal year 2012 projections. Medicare spending is net of premiums and payments from the states. Those receipts were \$85 billion in 2012. Income tax expenditures and revenues include both individual and corporate income taxes.
⁴Sources: Data from the Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2012 to 2022, January 2012. Compiled by PGPF.



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AMERICA IS TEETERING ON THE EDGE OF A FISCAL CLIFF

Congress and the President can lead us to safety by embracing compromise rather than gridlock. What we really need is a solution to the fiscal cliff that solves our growing long-term debt problem once and for all—a comprehensive bipartisan fiscal plan.

With the election over, Washington is back to work, trying to move away from the fiscal cliff. Going off the cliff would throw our economy into recession. But punting yet another opportunity to deal with our long-term debt is not an acceptable outcome either.

Now is the time for the President and Congress to seize this opportunity and agree on a long-term, comprehensive fiscal plan that stabilizes and begins to reduce debt as a share of the economy.

Getting to a grand bargain will require real leadership and bipartisan compromise,

particularly when it comes to health care, Social Security and taxes.

Without changes, Medicare and Medicaid are on pace to consume an ever-growing share of the federal budget—and Medicaid is consuming a larger portion of state budgets, too. The U.S. simply cannot have a bright future if health care bills continue to skyrocket while critical investments in education, R&D and infrastructure are starved of funding.

Social Security, despite claims to the contrary, is not sustainable for the long term. The payroll tax dollars credited to the Social Security trust fund have already

been spent. Between now and 2033, we will have to borrow trillions to pay promised benefits. Without reforms, benefits will have to be sharply cut beginning in 2033. We need to strengthen Social Security, so it is sustainable for future generations.

When it comes to taxes, one thing is clear: The current system is a mess. It's overly complicated, creates a raft of market distortions that reduce economic efficiency, and doesn't produce enough revenue to meet the needs of an aging society. (Remember, in the coming decades, nearly 80 million Baby Boomers will retire.)



Four items policymakers must check off their list to improve America's future

- Stabilize debt as a share of the economy.
- Rein in health spending by improving efficiency throughout the system.
- Make Social Security, Medicare, and Medicaid sustainable for the long term.
- Reassess our defense strategy to more efficiently and effectively address 21st century threats.

How to navigate the cliff—realistically

- Agree on a bipartisan framework for fiscal reform by the end of the year and avert the fiscal cliff.
- Set up a process to work through the details to pass legislation by July 4, 2013.
- Agree on an automatic set of default budget reforms, so that the world is assured that we are dealing with this problem one way or the other.

The fiscal cliff offers an opportunity to finally do something about all these challenges—and put the entire federal budget, including defense and other discretionary spending, on a sustainable long-term path.

Democrats and Republicans, liberals and conservatives, will disagree about the optimal way to fix the debt. But it's time for both parties to work together and make the long-term good of the country a top priority. Without a little give and take, gridlock will prevail; our debt will continue to pile up; the economy won't grow as fast as it could; our children will inherit a weaker economy,

much higher taxes, and a threadbare safety net; and we'll continue to invite disaster in the form of a major fiscal crisis.

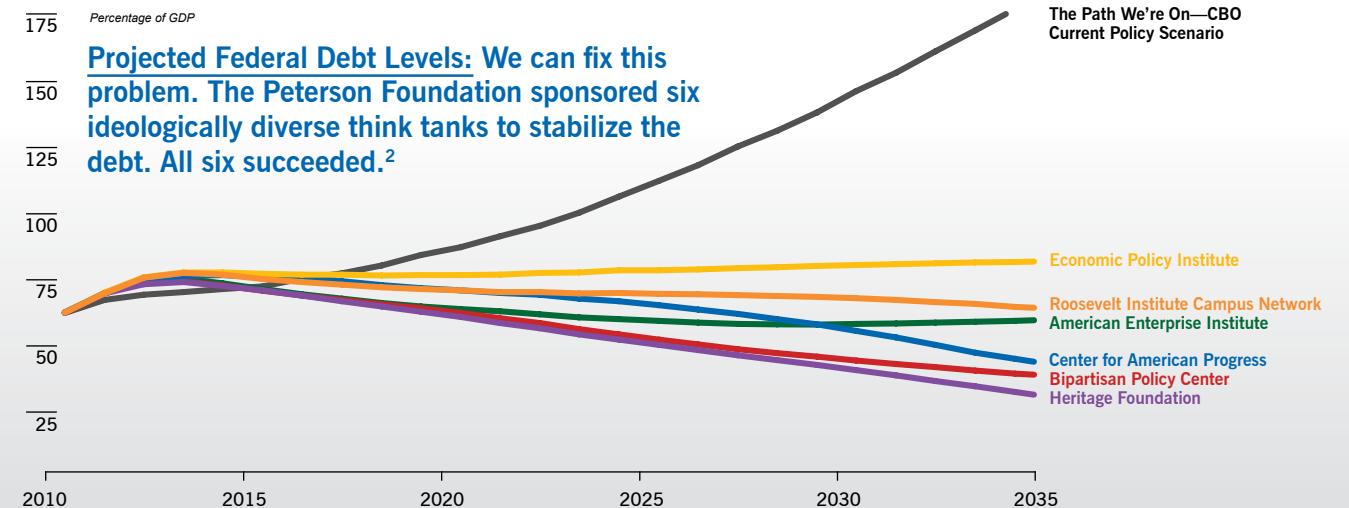
If leaders in the White House and Congress are serious about putting America on a better fiscal path—for today and for decades to come—they need to call a truce in the ideological warfare, reach across the aisle, and find common ground.

America needs a long-term, comprehensive plan to solve our fiscal challenges. Congress and the President need to deliver. And the fiscal cliff gives them an opportunity to act.

This week, our nation's top leaders and experts will discuss the urgent need for fiscal reform and you can tune in live.

The Peter G. Peterson Foundation presents:

Post-Election:
The Fiscal Cliff and Beyond
Friday, Nov. 16, 2012, 8:30 a.m.
Washington, D.C.
www.pgpf.org/fiscalcliff



¹Source: Peter G. Peterson Foundation based upon Congressional Budget Office, The Long-term Budget Outlook, June 2012. Figure reflects "Current Policy" projections, which assume current policies, such as lower individual tax rates and higher health care payment rates, will remain in effect.

²Source: Peter G. Peterson Foundation based upon Congressional Budget Office, The Long-Term Budget Outlook, June 2010, and fiscal plans submitted by the six organizations that participated in the 2011 Fiscal Solutions project. For more information, see pgpf.org/solutionsinitiative.

