

UPDATED FOR THE PAPERBACK EDITION

"MR. PETERSON HAS SET A BENCHMARK AGAINST WHICH THE DEBATE OVER LOWERING THE FEDERAL BUDGET DEFICIT WILL BE MEASURED FOR YEARS TO COME."

—DAVID E. ROSENBAUM, *THE NEW YORK TIMES BOOK REVIEW*

FACING UP

PAYING OUR NATION'S DEBT AND
SAVING OUR CHILDREN'S FUTURE



PETER G. PETERSON

FOREWORD BY

SENATORS WARREN B. RUDMAN & PAUL E. TSONGAS

WHAT'S BEING SAID ABOUT *FACING UP . . .*

“An important book . . . it begins to make comprehensible and understandable the dimensions and implications of the federal budget deficit over the next ten years.”

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“Peterson continues to hope that Americans, once fully aware of the magnitude of the nation’s fiscal crisis, will come together and sacrifice for the future. Maybe. They certainly could find no better reality check than this book.”

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FACING UP

Paying Our Nation's Debt and
Saving Our Children's Future

by Peter G. Peterson

Foreword by

Senators Warren B. Rudman and Paul E. Tsongas

A Touchstone Book

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*for my grandchildren, Alexandra, Peter Cary, and Steven,
and all the other children of their generation*

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Peter G. Peterson

Foreword

by Senators Warren B. Rudman and Paul E. Tsongas

We come from different parties in a political system that has made disagreement and confrontation a way of life in Washington. Many issues continue to divide us, our former Senate colleagues, and our parties. Yet on the most fundamental question facing us as Americans—our long-term economic predicament—we have found a remarkable expanse of common ground.

The challenge before us is clear. We see a nation whose economy is plainly failing to meet the needs and aspirations of its people. Despite some important progress under President Clinton's leadership, staggering deficits continue to choke off critical public and private investments. The quality of our educational system erodes as our once-dazzling infrastructure buckles. Our nation is becoming two polarized Americas, one privileged, one poor. Our productivity grows meagerly compared to our competitors'; our savings and investment rates are a fraction of theirs. The general interest and the future are drowned out by the strident claims of today's special interests. Even at a time when the electorate has made it clear it wants change, many elected officials dare not speak the truth.

Son of poor Greek immigrants, Pete Peterson exemplifies the power of the American Dream for his generation, having risen to the presidency of a major corporation, served as a cabinet officer, and founded a successful investment bank of which he is now chairman. In Pete's view, as in ours, the American Dream—the promise of steady improvement in private and public life and parents' conviction that their children's lives would be better than their own—is now at risk of extinction for many citizens and may survive for future generations as but a wisp of historical memory.

Pete's concerns about these issues have transcended partisanship. He has always made it clear that no progress can be made if the focus is on narrow partisan blame. The only solutions to America's economic problems are nonpartisan solutions—a point he emphasized when he encouraged us to come together to head The Concord Coalition.

This coalition is a nonpartisan grass-roots organization of American citizens dedicated to telling the truth about our economic predicament, to working with our fellow citizens to shape the hard choices we must face as a nation, to debating those choices with the national interest and future generations uppermost in mind, to empowering citizens who want honesty and real change but do not know where to turn, and to empowering political leaders who need the force and support of public opinion to act as they must to solve our problems. Our goal is formulating and building support for a realistic long-term program that will pull America out of economic stagnation and enable a stronger, richer, and fairer nation to emerge.

The Concord Coalition has no orthodoxy, no programmatic litmus test for membership. Yet it passionately stands behind four principles: telling *hard truths*, *investing* in America's future rather than consuming it, acting *fairly*, and insisting on the obligation of citizens to inform themselves and to work for the *common good*. Pete's book, *Facing Up*, embodies these principles and represents the culmination of over a decade of one man's analyses and writings aimed at solving America's most pressing problems.

In the words of Robert Louis Stevenson, "Everybody, sooner or later, sits down to a banquet of consequences." As this book makes painfully clear, our generation is enjoying the banquet, and future generations will get the consequences. Our children (and their parents) should read this book to learn what kind of country they will inherit if the debts and deficits of our consumption addiction keep growing at their present rate. They should know about deficits that are projected to soar past 20 percent of our economy and about Social Security and Medicare costs that may eventually consume 38 to 53 percent of the average worker's wages—not to mention the equivalent of a \$140,000 mortgage each family is leaving to its children in unfunded entitlement benefit liabilities. We and our children should soberly appraise the real risk that these projections—all unsustainable and unthinkable—pose of an ugly generational war as we move into the early decades of the next century.

As Pete points out in these pages, compared with our historical record and with our global competitors, we have become the world champions at borrowing and consuming rather than saving and investing. Once among the world's highest, our net savings rate has fallen to the *bottom* of the industrial world. Since 1980, our cumulative deficits

have *quadrupled* the entire national debt run up over the past two centuries. The health and future of our factories, our laboratories, our infrastructure, and the minds of our students have all been placed at unconscionable risk by our failure to invest in them. Somehow we seem to have forgotten that a high-productivity, high-growth, high-wage economy depends on high savings and investment—publicly and privately, in minds and in machines. In the long run, such an economy brings not only a higher private standard of living but also enormous social, public, and environmental improvements.

Pete sets forth a program of broadly shared sacrifice and investment in our collective future that would transform today's fears and pessimism into a bright, sustainable twenty-first century for our generation, our children, and our children's children. But his program is not utopian. Indeed, he is among the few public voices who have chosen to face up to the *politically toxic question of paying for this investment agenda*. The only way to do this is to temporarily restrain the growth of consumption in both the public and private sectors. The surest way to provide the needed resources is to tackle the federal deficit, a pernicious form of negative savings that now devours between half and two-thirds of all private savings.

To eliminate the deficit, we must debate and enact concrete reforms in our trillion-dollar system of federal entitlements, from Social Security, Medicare, and civil service and military pensions to farm supports and the employer-paid health-care exclusion. We must direct our reform efforts to where these programs provide windfalls to those who don't really need them. We must also enact judicious cuts in defense spending so we are truly prepared for tomorrow's threats, not those of yesterday. We must change our tax policies to favor investment and savings over borrowing and consumption (a prime candidate for such change is our wasteful, inefficient, and environmentally dangerous use of energy). Further, we must drastically overhaul our medical care system to stanch the bleeding not only of public budgets, but of private ones as well. This book offers a fair and comprehensive blueprint for shifting from a consumption-based to a savings- and investment-based economy.

There will be some pain—discomfort, really—as we, the world's leading consumers and borrowers, overcome this consumption and borrowing addiction so we can grow again on a sustained basis. Politicians as usual will pander to this and that special interest group to gain votes. But we are committed to coalescing behind programs on behalf of the general interest, the common good, our future, and our children's future.

As we grow older, the overriding importance of our children becomes even clearer. It is not simply economically destructive to be-

queath them an inheritance of diminished investment, productivity, and competitiveness—along with the debts for our past consumption. It is immoral.

As Pete reminds us all in *Facing Up*, our parents and grandparents and many in our generation pulled a country out of depression. They won a World War and later a Cold War. They acted for the future peace of the world by rallying around the Marshall Plan and they bettered their own future by supporting massive outlays to young veterans for housing and education. When there was a need to invest in classrooms and in vaccines and in highways, they rose to the occasion. When spending did rise, few said it was better to borrow than to tax. All the while, they managed a net savings rate twice today's.

In substance and in spirit, this is the legacy left to America's children over the years. Tragically, we seem to have abandoned that tradition. Once again, it must become our legacy. This book is a courageous effort to chart the path and lead the way.



WARREN B. RUDMAN



PAUL E. TSONGAS