

A mission to save a profligate nation



By Pamela Ryckman

Published: February 24 2009 02:44 | Last updated: February 24 2009 02:44

Pete Peterson is puzzled. It is the day after Tim Geithner, Treasury secretary, unveiled his \$2,000bn financial rescue plan and markets and the press are panning the proposal for lack of detail.

“Why did [the administration] build up expectations the way they did, as though it was going to be a definitive plan?” he says. “If they had just said ‘it’s going to take us a week or two more, and for now we’re going to outline some principles’, you would have had a very different reaction.”

Still, even Mr Peterson, a former commerce secretary and co-founder of The Blackstone Group, a private equity firm, is humbled by the magnitude of the crisis. “I think we’re being a little glib in criticising these programmes given the raw complexity, unprecedented size and scope of what is involved here,” he says. “This is one of the most complicated simultaneous equations I have ever seen in the economic world.”

As Mr Peterson lists the plagues Mr Geithner is confronting, the US begins to resemble a fiscal version of the cursed House of Atreus. “Addressing all of these issues is extraordinarily demanding intellectually,” he says. “How does one know the effects of various stimuli when you’re dealing with a totally unprecedented situation?”

While President Barack Obama’s team struggles to stabilise the economy in the short term, Mr Peterson, who recently retired as Blackstone’s senior chairman, has his eye fixed on the future. He believes the present calamity has finally brought to light the myopia and grave policy flaws he has spent nearly 30 years railing against, but whose underlying causes have been politically untouchable until now.

“People are frightened. Even before the crisis, the majority of people thought their kids weren’t going to do as well as they had done. Both the president and Geithner are now talking extensively about getting at the long-term problems,” he says.

It is exactly these persistent obstacles Mr Peterson hopes to attack through philanthropy. Last July he set up an eponymous foundation, pledging \$1bn of the \$1.8bn gains he received when Blackstone went public in 2007. Its mission is to educate the public about fiscal prudence and find sustainable solutions to America’s out-of-control spending.

While the national debt stands at \$1,070bn, Mr Peterson and his research team argue the real number is \$56,000bn, or \$483,000 per US household, given the government’s pledged outflow to unfunded retirement and healthcare obligations.

The Peter G. Peterson Foundation preaches financial responsibility on both personal and national levels. Its path to solvency includes reforming the tax code, Medicare, social security and other entitlement programmes, and reducing reliance on foreign lenders. One of his greatest fears is America’s burgeoning debt to countries such as China or those in the Middle East, which do not share the American political creed.

“Everybody talks about foreign lenders dumping their securities. Since we don’t have any savings of our own, it doesn’t need to be that extreme. All they would have to do is stop buying them or cut the amounts in half and you would see some very serious effects on the dollar, on interest rates,” he says. “Then there are the political and foreign policy aspects; if you’re this dependent on somebody, they can start using their money for geopolitical reasons, contrary to our national and strategic interests.”

Yes to more regulation – but be careful over pay

As co-founder of the Blackstone Group and a philanthropist, Pete Peterson believes that more and better regulation of the financial sector is necessary. But he finds the government’s involvement in areas such as executive remuneration makes him “very uneasy”.

He cites the early 1990s, when the government imposed a compensation cap of \$1m for executives of all public corporations. As a result, stock options became a much greater percentage of executive rewards. A lack of enforced holding periods allowed executives to sell their securities promptly for short-term gains and to

Mr Peterson says the US cannot continue to spend more than it has, or live in the moment at the expense of future generations. "The [country's] founders envisioned a very different political dynamic than the one we currently have. Going to Congress in Washington was a temporary activity, often to achieve some specific purpose. Now it has turned out to be a long-term career. [Politicians] are focused on the next election and staying employed, not on the kind of world we're leaving for our children and grandchildren."

Mr Peterson and David Walker, the foundation's president and chief executive, want to hold career politicians accountable beyond their terms. They have proposed that the Obama administration appoint a "fiscal future commission" to confront these enduring issues and present an action plan to Congress

"We need to send a signal to the markets that while we know government spending might be necessary right now, we ultimately have to live within our means as a country and to show the foreign lenders on whom we're overly reliant that we'll take steps not to lose their confidence," Mr Walker says.

Mr Peterson believes his foundation is well positioned to succeed. He admires Adam Smith's notion of comparative advantage – "focus on those things you do better than others" – which he learnt from his professor, Milton Friedman, while attending the University of Chicago Booth School of Business.

One of his foundation's comparative advantages, he notes, is his and Mr Walker's close relationships with Mr Obama's economic team – including Mr Geithner, who was chosen as president of the New York Federal Reserve during Mr Peterson's reign as chairman there, and Lawrence Summers, who chairs the advisory board of the Peterson Institute for International Economics. After years spent stymied by big government conservatives of the Bush era, Mr Peterson now has the ear of the administration.

In December, the foundation hosted a summit to discuss potential threats to US economic and national security. Attendees included Alan Greenspan, Paul O'Neill, Robert Rubin, George Shultz, George Soros and Paul Volcker. "These aren't just friendships; they're substantive relationships. We have worked with these people in a variety of areas and I hope we have some credibility," Mr Peterson says.

He cites as another advantage the foundation's commitment to action and advocacy. "There is no lack of proposals to combat these challenges, and if you talk to leaders in Washington privately, you get no disagreement that they are undeniable and unsustainable. The problem is doing something about them."

Because he aimed to avoid bureaucracy and lead an organisation "capable of moving swiftly", Mr Peterson sacrificed the tax advantages of a more highly regulated public charity for the flexibility of a private foundation. He, his wife and his son Michael are its only directors.

It was Mr Peterson's assiduousness that convinced Mr Walker to relinquish his position as comptroller-general of the US and head of the Government Accountability Office.

"If Pete Peterson was not personally involved in this, I would never have left my job," Mr Walker says. "I had accomplished every objective I'd laid out for myself as comptroller-general but one – to try to help Congress and the president make a significant downpayment on the nation's fiscal structural imbalance and to create some momentum toward a more prudent, sustainable long-term path. Ultimately, Pete convinced me I had a better chance of achieving my one remaining objective here."

While, at 82, Mr Peterson may seem an unlikely candidate to galvanise American youth, his foundation is targeting young people because, as Mr Walker says, "they'll bear the burden and have the most to lose if our government fails to act".

The foundation has established a Facebook page for its documentary, *I.O.U.S.A.*, and is hosting screenings on college campuses nationwide. It also joined with mtvU, the college cable channel, in launching the "InDebtEd" campaign, which will expose the dangers of mounting individual and collective debt. They invited 18- to 28-year-olds to submit original ideas for a video game about the economic debacle; the contest's winner received \$10,000 and will have his design professionally produced.

"We are not a typical foundation," Mr Walker says. "But then again, we're trying to save the republic."

benefit from tax deductions. Executives' personal interests were no longer aligned with those of shareholders.

"CEOs' total compensation grew 10 times faster than the average worker's – the last thing intended as a result of that piece of legislation," Mr Peterson says.

"There's an interesting word from the field of medicine – iatrogenic – which refers to diseases or side-effects that come about inadvertently as a result of the treatment. You want to make sure your solution does not have iatrogenic effects, like it did in 1993."

In the final chapter of Mr Peterson's memoirs, due out in June, the Washington insider and Wall Street icon is forthcoming about his struggle for a sense of purpose following his retirement from Blackstone and the Council on Foreign Relations, where he served as chairman. "What was I if I wasn't defined by my work?" he asks.

Mr Peterson may have found salvation by giving back, by injecting new capital and energy into his decades-old crusade. He believes his efforts have greater moral weight than ever – the future of the American dream is at stake.

Copyright The Financial Times Limited 2009

"FT" and "Financial Times" are trademarks of the Financial Times. [Privacy policy](#) | [Terms](#)
© Copyright [The Financial Times](#) Ltd 2009.