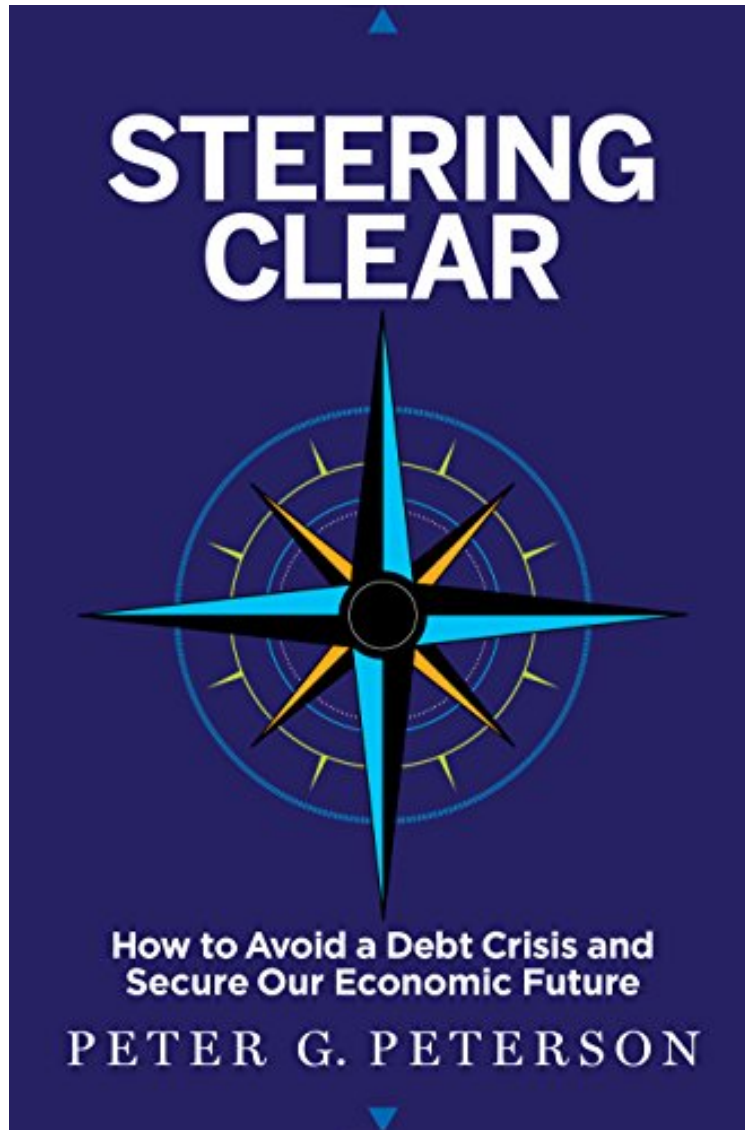


(Free download) Steering Clear: How to Avoid a Debt Crisis and Secure Our Economic Future

# Steering Clear: How to Avoid a Debt Crisis and Secure Our Economic Future

*Peter G. Peterson*

*ePub | \*DOC | audiobook | ebooks | Download PDF*



 Download

 Read Online

#328727 in eBooks 2015-02-05 2015-02-05 File Name: B00LFZ857Y | File size: 63.Mb

**Peter G. Peterson : Steering Clear: How to Avoid a Debt Crisis and Secure Our Economic Future** before purchasing it in order to gage whether or not it would be worth my time, and all praised Steering Clear: How to Avoid a Debt Crisis and Secure Our Economic Future:

0 of 0 people found the following review helpful. Setting a new course, so that our optimism as Americans can be justifiedBy Chad MAs I read through this book it became clear that "Steering Clear" is straight talk about the national debt. The message is similar to the documentary film "IOUSA" yet with far more detail and proof. I think this is an

important book because the national debt, \$13 trillion dollars, is at an inflection point. To steer clear means the US has to change course both in the right degree on the political compass, and at the right time (meaning large budgetary changes, this election cycle). The significance of acting with sufficient resolve and speed cannot be overstated. Mr. Peterson carefully estimates two courses for the debt: one with exponential growth to 183% of the GDP in 2039 and the other with stabilizing path to 106% of GDP (page 3). This is the difference between prosperity and poverty. Can we overcome the challenge? If we do, it will be history making. After all, the Harvard educated physicist Albert Bartlett wrote, "The greatest shortcoming of the human race is our inability to understand the exponential function" ("Immoderate Greatness", William Ophuls, p. 13) 1 of 1 people found the following review helpful. I recommend it. By William J. Karrels The author actually proposes a solution rather than just raise a lot of red flags. I recommend it. 1 of 1 people found the following review helpful. Five Stars By Christopher McDonald An excellent examination of our financial problems here in the U.S. as well as globally.

Despite clear danger and explicit warnings, the United States of America—distracted by short-term challenges and its own political dysfunction—is steaming toward its own collision, one with long-term debt. Philanthropist, businessman, and former secretary of commerce Peter G. Peterson argues that we can no longer ignore the long-term debt challenges facing our country, because our economic future depends on it. The gross federal debt now exceeds \$17 trillion and it is expected to rise rapidly in the decades to come. If the growing gap between projected spending and revenues continues to widen, our federal debt is projected to soar to the highest levels in our nation's history—more than four times its average over the past forty years. This growing debt and the associated interest costs divert resources away from important public and private investments that are critical to our global competitiveness, threatening our future economy. Peterson has made it his life's work to bring awareness to America's key economic and fiscal challenges. He makes clear that if we continue to ignore America's long-term debt, we will diminish economic opportunities for future generations, weaken our ability to protect the most vulnerable, and undermine the competitive strength of our businesses globally. The drama-filled, economically damaging budget battles of the last few years have focused almost entirely on the short term—putting aside the more difficult, but much more important, long-term issues. Peterson offers nonpartisan analysis of our economic challenges and a robust set of options for solving our long-term debt problems. He looks at the impact of aging baby boomers, growing healthcare costs, outdated military spending, a flawed tax code, and our divided political system. And he offers hopeful, durable, and achievable solutions for improving our fiscal outlook through a mix of progrowth reform options that would reduce government spending and increase revenue, and could be phased in gradually in the years to come. It's still time to restore the United States as a land of opportunity. Peterson's diagnosis and recommendations can help us confront our fiscal reality, address our long-term debt, and steer the country safely toward a more secure and dynamic economic future.

As an outstanding leader in the public, private, and philanthropic sectors—and a proud grandfather of nine—Pete Peterson cares deeply about America's future. In *Steering Clear*, he tells us how we can pay off our debt and put America on the path to long-term prosperity. —PRESIDENT BILL CLINTON In a society where success is too often measured quarter by quarter or election by election, Pete, just as he has throughout his career, takes the long view. We can all benefit from the richness and thoughtfulness of his perspective in this book as we take on one of the toughest challenges of our generation: securing America's economic future. —JEFFREY R. IMMELT, chairman and CEO, GE This timely and essential book presents a frank assessment of our country's long-term fiscal picture, why it matters, and what we can do to put our nation on a path toward a brighter economic future. Peterson is a visionary who has seen these challenges coming for decades. *Steering Clear* should be required reading for anyone who is concerned about the fiscal legacy and economic opportunities we will bequeath to future generations. —ALAN GREENSPAN, former chairman, Federal Reserve Board Pete Peterson's latest book reminds us that in order to restore the United States as a "land of opportunity," America's fiscal crisis must be dealt with head on. He sets out a clear list of options for solving our long-term debt problem, which is critical to our children's future. —BILL BRADLEY, former U.S. senator Pete Peterson has laid out clear, nonpartisan solutions to our nation's economic challenges. The commonsense reforms he puts forth in *Steering Clear* aim to attack our growing debt, solve our long-term fiscal problems, expand economic opportunity, and put America back on the road to prosperity. —MICHAEL R. BLOOMBERG, former mayor, New York City Pete Peterson has long been a deeply respected voice and champion for a responsible fiscal future for America. As we have now entered uncharted waters with regard to our unsustainable long-term debt, his compelling message for the imperative of charting a new, bipartisan course is more urgent than ever—and paramount for America's prosperity in the decades to come. —OLYMPIA SNOWE, former U.S. senator; senior fellow, Bipartisan Policy Center Pete has made it his life's work to "bail us out" of our precipitous fiscal decline due to our still mounting debt. His superb book is the proverbial canary in the coal mine for all of America. His clarity and

insight amid fiscal complexities and chaos, along with his recommended solutions, will provide for a better America.”—ADMIRAL MIKE MULLEN, former chairman, Joint Chiefs of Staff

About the Author PETER G. PETERSON is the founder and chairman of the nonpartisan Peter G. Peterson Foundation, which works to increase public awareness and accelerate action on the key fiscal challenges threatening America’s future. He is also the cofounder of The Blackstone Group, a former chairman and CEO of Lehman Brothers, a former chairman of the Council on Foreign Relations, founding chairman of the Peterson Institute for International Economics, former secretary of commerce under President Richard Nixon, and former chairman and CEO of Bell and Howell company, among many other positions in the public and private sectors. He is the author of six previous books, including *The Education of an American Dreamer* and the bestseller *Running on Empty*. He lives in New York City.

Excerpt. copy; Reprinted by permission. All rights reserved.

PREFACE

For more than twenty-five years, I have been writing and thinking about a confluence of forces that threatens America’s long-term economic future, including our rapidly aging society, our growing healthcare costs, our vast unfunded entitlement programs, our flawed tax system, and our dysfunctional political system with its myopic inability to compromise or reconcile rigid ideologies. This combination of factors leaves us with the sobering prospect of massive, unsustainable long-term debt that I consider a transcendent threat to future generations. Yet in spite of repeated short-term fiscal squabbles, including debt limits, sequesters, and government shutdowns, this long-term debt threat remains unaddressed. The drama-filled, economically damaging budget battles of the last few years have focused almost entirely on the near term—putting aside the more difficult, but much more important, long-term questions. Several years ago, I retired from business and considered what I might do that would be both fulfilling and meaningful. It seemed obvious to me that our nation’s unsustainable, long-term structural fiscal challenges would be a worthy subject and I established a foundation to draw attention to—and make progress on—that issue. Creatively titled the Peter G. Peterson Foundation, this organization would create more awareness of the long-term debt problem, its size, its causes, and its effects. The foundation would also discuss general principles for reform as well as policy proposals themselves. The foundation would be nonpartisan and would not endorse any particular reform proposal. Rather, we would work to educate, engage, and convene a variety of perspectives on this issue. A good example of this approach was our 2011—12 Solutions Initiative project. We went to six think tanks from across the ideological and political spectrum, from left to right. To start with, did they agree or disagree that the long-term debt balloon was unsustainable? All six agreed. Did they have their favorite proposal? They all said yes (though they all had different proposals). We then asked if they would be willing to lay out their plan for achieving a sustainable debt level within twenty-five years, and they agreed. We then highlighted the groups’ findings at our annual Fiscal Summit in Washington, D.C., and distributed their ideas widely, demonstrating that there were many viable paths forward for policymakers. Now, while it’s clear that options are available, it’s also unmistakable that there are very strongly held—and sometimes incompatible—philosophical views on either side. One view, held by many conservatives, is that we should solve our fiscal challenges with spending cuts alone. The view from the opposite side of the political spectrum holds that cuts to entitlement programs should be off limits, in favor of imposing higher taxes, particularly on the rich. Both approaches are not only extreme in their impact, but they are also politically infeasible. Putting aside one’s ideology, it’s clear that for any plan to be politically viable for the long term, it must have bipartisan support. Therefore, any durable set of long-term reforms must combine both spending cuts and revenue increases. I further believe that both the revenue and spending reforms should have the heaviest impact on the well off—like me!

Given all this prologue, what am I attempting to do (and not do) with this book? One of the key concepts that I hope to get across in this book is the importance of thinking longer term. As a nation, we are all too focused on this year, or next, and often ignore and delay important decisions that affect the next generation. While many of my critics have labeled me a deficit scold (or worse) who is singularly obsessed with cutting entitlements and immediate austerity, the truth is that I am not principally concerned with this year’s deficit, or next year’s or even those over the next ten years. Nor do I favor fiscal austerity in this time of unusual economic distress. And I resolutely believe that we must reform vitally important entitlement programs in a way that retains and strengthens their value for our most vulnerable citizens—particularly as we’ve seen troubling trends in wage stagnation and disturbing facts about income immobility in recent decades. Rather, my primary concern is the longer term unsustainable path of our debt and the threat that it poses to the American dream. Lastly, I should explain that this book reflects my personal views, not those of the foundation itself or its staff. I hope you find this book informative, and that it adds to this critically important conversation about America’s future.

INTRODUCTION

On a clear, moonless April night in 1912, wireless operators aboard the RMS Titanic—en route to New York on its maiden voyage—received a series of messages from other ships warning of large icebergs in the area through which it was to pass. The captain, despite knowing that icebergs would be hard to spot on a moonless night on a flat sea, did not post extra lookouts or slow down. Instead, given his confidence in his mighty ocean liner, he ordered his crew to maintain a high cruising speed, and after a fine supper with prominent passengers, retired to his cabin. At 11:40 p.m., the Titanic’s lookout spotted an iceberg looming ahead and raised the alarm. Despite an immediate hard turn and engines at full reverse, the Titanic’s momentum toward the massive berg was too great to avoid a collision. And as the

implacable ice gashed open the ship's heavy steel hull, water began gushing in. The captain, realizing the peril of the situation, sent out a distress signal and ordered an evacuation of the ship. But the ship was not built with enough lifeboats for everyone on board because the ship owners were so confident that their ship would never sink. And the captain and crew were just as unprepared: lifeboat drills were never conducted, passengers were not assigned specific boats, and the deck officers did not know how to properly load them. Because of an appalling lack of planning and preparation, many of the lifeboats were launched only half full. Just two hours and forty minutes after the collision, as the doomed ship's orchestra played bravely to the last, the "unsinkable" Titanic suddenly reached a tipping point and plunged into eternity. The ship's sinking was a tragedy—and not just because 1,500 people lost their lives. It was a tragedy because its deadly collision was entirely avoidable. In haste and hubris, the captain and his officers had ignored many clear warnings, dismissed the potential for danger, and refused to exercise even modest caution. Given such flawed decision making, it's clear that what ultimately caused the ship's sinking was not so much a failure of the ship's design, but of leadership. And as such, the famous disaster should serve as a stark warning to all those who refuse to acknowledge and prepare for known dangers of any sort—that lie over the horizon. Unfortunately, despite clear danger and explicit warnings, the United States of America—distracted by short-term challenges and its own political dysfunction—is steaming toward its own collision, one with long-term debt.

### JUST HOW BIG COULD AMERICA'S LONG-TERM DEBT BECOME?

It's not talking about current deficits, or the \$13 trillion in public debt we've already amassed.\* Given the size of our economy, it's still manageable. What I am focused on is the danger and unsustainability of our long-term debt. That's because the math over the next twenty-five years is clear: if we fail to address the growing gap between projected spending and revenues, the Congressional Budget Office (CBO) projects, under what I consider to be optimistic so-called current-law assumptions, that our federal debt will grow to 106 percent of the size of our entire national economy. Under less optimistic assumptions, our debt could soar to an unsustainable 183 percent of gross domestic product (GDP) within twenty-five years. To put that level of debt into some perspective, 183 percent would far exceed the highest in our nation's history. As a percentage of GDP—which enables an apples-to-apples comparison over time—it would be nearly double that which we incurred in the 1940s, when we were fighting World War II.

### WHY I AM SPEAKING OUT

Now, some people might wonder why I am so persistent in sounding the alarm over America's long-term debt. After all, why should an eighty-eight-year-old billionaire—by any measure long on dollars and short on years—care so deeply about an issue that to many people seems both distant and arcane? The answer is simple: I am an American Dreamer, and this country has given my family and millions of others—unequaled opportunities to dream and to prosper. And together we have a profound obligation to try to pass on the same opportunity to future generations. This isn't just an economic imperative; it's a moral imperative. The quintessentially American opportunity to work hard and achieve one's highest aspirations—once available to nearly everyone—has begun to sputter. And unless we can reignite this opportunity and get "back in the future business," as President Bill Clinton puts it, the American middle class—whose continued growth, optimism, and spirit of possibility lie at the core of our nation's prosperity—will founder. And if the middle class founders, eventually our democracy may too. If we fail to get our long-term debt under control, we will likely confront one or perhaps two very different economic challenges—either one of which would produce profoundly negative consequences for our nation and its future.

### THE PERILS OF A MARKET CRISIS

The first risk is that of a sovereign debt crisis brought about by a sudden loss of market confidence in U.S. debt. Cumulatively, a continuation of shenanigans like the 2013 fiscal cliff, debt-ceiling showdowns, and sequesters that harm economic growth without meaningfully addressing our long-term debt could at some point undermine our government's credibility at home and abroad. If that happened, a seemingly small event might trigger an avalanche of consequences—not just harming economic growth, but potentially unraveling the social safety net for the most vulnerable Americans. While interest rates remain low and such a crisis may seem remote today, no one knows when a market-driven crisis might hit, or how bad it could be. And as ugly as fiscal politics may seem today, they will only become uglier in a time of severe crisis—precisely when we would need cooperation and bipartisanship most.

The lengthy crisis in Europe, which very few predicted, is a good example of what can happen when markets suddenly turn. Before the crisis, most European governments could easily borrow money at low rates. But there were serious underlying challenges—especially in Greece—that policymakers let fester. And then the markets turned. Greece defaulted, and other European governments—many experiencing soaring interest rates and sinking credit ratings—struggled to avoid a similar fate. In late 2009, Greek interest rates on ten-year government debt hovered between 4.5 and 5.5 percent. By early 2011, that rate had soared to 12 percent—and by early 2012, it was climbing past 25 percent. The attendant economic problems that have subsequently afflicted much of the Continent—with persistently low growth and persistently high unemployment, especially among young people who face unemployment rates above 55 percent in Greece—have made it even harder for Europe to take the steps necessary to put its fiscal house in order. To be clear, the United States isn't very likely to find itself in the same situation as Greece. But the larger point remains true: the underlying conditions of market crises don't necessarily develop overnight. Rather, they build over time as leaders chase

short-term political gains at the cost of their nation's long-term fiscal health. Ultimately, markets for government debt can turn quickly and unexpectedly, often with disastrous consequences. And while such a crisis could belatedly force leaders to address long-term debt, it would also drive up the costs of doing so—far more so than if our leaders were to tackle the long-term debt steadily, over time.

### THE PERILS OF A SLOW-GROWTH ECONOMY

The second type of economic threat we could face, and one that many economists consider more likely, is that our mounting long-term debt could cause an extended period of slow growth. In such a slow-growth economy, rising deficits and increasing federal interest payments would eventually crowd out the very sort of private and public investments necessary to compete and grow in an increasingly technological and knowledge-driven world. Investing heavily in the future has always been an American strength. Building the interstate highways, exploring space, developing GPS technology, mapping the human genome—these were all possible because we had the political, intellectual, and financial resources to make major, long-term investments. If we spend too much of our national income on runaway healthcare costs and massive interest payments instead of investing in true catalysts for growth, the United States could eventually risk losing out to other countries in achieving the next great scientific and engineering breakthroughs. Indeed, there are some indicators suggesting that this may be happening already. America's interest costs are already on a pace to march upward in coming years as the economy recovers and interest rates rise to traditional levels. In 2014, total federal interest costs were 1.3 percent of GDP. But by 2050, the CBO projects that interest costs could rise to a staggering 10.7 percent of GDP. At that level, interest expense would be four times what the federal government has historically spent each year on education and job training, RD, and nondefense infrastructure combined, which are vitally needed for long-term growth. (See the chart on page 63.) And we will face these high interest costs at a time when investing in the future should be a national imperative.