

The Economic Club of New York
441st Meeting
107th Year

Peter G. Peterson
Chairman and CEO, Peter G. Peterson Foundation
Chairman Emeritus and Co-Founder,
The Blackstone Group

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William Dudley: I'd like to welcome everyone to a very special evening when we honor one of the club's former chairs, Peter G. Peterson, with a Special Achievement Award. I am Bill Dudley and I am the chairman of the Economic Club of New York, and my day job I'm president and CEO of the Federal Reserve Bank of New York. Pete also happens to be the former chair of the Board of Directors of the New York Federal Reserve Board. This is the 441st meeting of the club in the 107th year. As you all know, the Economic Club of New York has become this nation's leading nonpartisan forum for economic policy speeches. More than 1,000 guests have appeared before the club and have established a very strong tradition of excellence. Tonight is Pete Peterson's night, and we're joined by so many of Pete's friends, including David Rockefeller who is the oldest member of the Economic Club and I'd like to welcome David tonight. (Applause) Before we begin, I'd also like to recognize the 218 members of the Centennial Society including Pete and David who have contributed to ensure a sound future for the club. To begin our program honoring Pete with a Special Achievement Award, a number of his friends and former colleagues have shared their thoughts about Pete's many contributions to economic policy in this country and why he is so deserving of this award. So please enjoy this short video.

VIDEO PRESENTATION:

Well, I wasn't at all surprised that Pete was selected for this award. He knows more economics than a lot of professors of economics with PhDs. I think Pete has been more successful than anyone else at drawing attention to the problem of national saving, the problem of budget

deficits, and the long run concerns of the national debt. He understands that it slows our growth. He understands that it creates international risks for us. And so he has tried to educate the public about that issue. I think the reason that Pete is getting this award is that he is viewed as one of the real wise men about economic policy since his early days in the White House dealing with international economics to his more recent continued pressure on these issues of savings and investment.

Pete, all his life, has been concerned about the nature of the American economy, the future of the global economy. I think he is an outstanding choice for this award. His contribution has been that he really made it conventional to think that economic and foreign policy measures in many respects should be merged and should be looked at from the same, in the same package strategy. Today that may be taken for granted, but when he was in the White House it was a big innovation. Pete is a multi-dimensional person. In that respect he is a Renaissance figure. There's only one Pete Peterson.

It's well deserved. Pete's contributed an enormous amount to the economic dialogue in our country. Pete sees economics in the big picture of the life of nations, of nations' role in the world, of their power, of their obligations to the future. America's provided great opportunity to Pete and Pete wants to be sure that America provides similar opportunity to all of the children alive today. And that means focusing on the long run. That means focusing on the debts we're leaving, the burdens we're placing on the next generation. There's a real moral sensibility to his

concerns.

Well, you know, I think Pete's, in some ways his singular contribution to how you think about foreign policy is the focus he's brought to trying to get the country to think about our long-term challenges and how we finance the safety net for the poor and the elderly. And this is a, you know, a question for the ages. We're going through a period as a country where Americans have this deep loss of faith in the capacity of government to do things to make a practical difference in how strong we are as a country, how Americans live. And in that context, at times like this, it's really important you have people in business or in finance who are able to try to bring a credible source of pressure and vision and challenge to our political leaders. I think that he signifies the best of that strand in the American political tradition.

Here's what I think about Pete, and I've thought it since the first time I met him a gazillion years ago when we were children. I think there is a reason that in ancient times the people who preserved the narrative of a culture were the most revered. Because he not only cares about the facts, but he cares about what is central to the soul of a culture and you always see him trying to remind people that the decisions we make are not just decisions about strategy, they're decisions about identity. I think some of this comes out of that 24-hour café in Nebraska with his Greek family and their sense of purposefulness and building. And you still see some of that in him. You see a conviction that even as we're having a great time in life, being alive, that you have to remember the fire that keeps us alive. (Applause)

William Dudley: That was quite a video, Pete. We're now going to hear from two of Pete's friends who are here tonight. First, Alan Greenspan, former vice chairman of the Economic Club of New York, but of course you know Alan in a different guise, his very longstanding and very successful stint as chair of the Federal Reserve System. Alan...

Alan Greenspan: Peter Peterson is a force of nature, a Renaissance man whose life story embodies all that is best in the American dream. The problem of those of us who have been paying tribute to him tonight is that he's accomplished so much and has had so many singular achievements; it's a challenge almost too great for one speech and one evening. Should we celebrate Pete for co-founding The Blackstone Group, for being the former chairman and CEO of a solvent Lehman Brothers, for chairing the Council on Foreign Relations, or for his early years as the chairman and CEO of Bell and Howell, and Secretary of Commerce under Richard Nixon? I got to know him, of course, when he served in Washington and when I was on the board of the Council on Foreign Relations when Pete was chairman. I also had the benefit of his wise counsel from 2000 to 2004 when Pete served as a tough, but highly effective, chairman of the Federal Reserve Bank of New York. As all of us know, Pete has had so many careers; it's hard to know where to start, or end. In more recent decades he has chaired the Peterson Institute for International Economics, a thought leader on global economic policy, and he also gave Washington, he also gave Washington an architectural gem for a building to house the institute. Most recently he funded the Peter G. Peterson Foundation to increase public awareness of the

fiscal challenges facing the United States. His fiscal summits have become invaluable exchanges and I look forward to participating in them. His commitment to the foundation reflects his determination to awaken the nation to the inevitable crisis of our long-term debt, the collision of an aging Baby Boomers' growing healthcare cost, a flawed tax code, and the political stagnation in Washington. Pete has become the Paul Revere of fiscal conservatives sounding the alarm with his earlier work on the bipartisan Concord Coalition and in six previous books including the bestseller, *Running on Empty*. Now he's about to publish a seventh, *Steering Clear: How to Avoid a Debt Crisis and Secure our Economic Future*. Pete's is a war not on entitlements, but in support of arithmetic. He has added his powerful value to the actuaries of the Social Security Trust Fund who indicated in a recent pronouncement that to achieve sustainable solvency over the long run would require a permanent tax increase on payrolls of four percentage points – an increase of almost a third – or a permanent cut in benefits of almost a fourth, or some combination of the two. Simply stated, as the Baby Boom generation, arguably the most productive and tax-paying members of our society, continues to retire, they transition from being major tax contributors to the trust fund to being major recipients of benefits from the fund. But there is an additional concern that plagues our fiscal outlook. Federal contingent liabilities. Currently the official U.S. federal debt to the public is \$13 trillion or 73 percent of current annual GDP, but that is a threat of default only at the time when payment of principal or interest comes due. If we are to assume that the future banks, for example, will not be allowed to fail, the official financial liability of the U.S. government currently is far greater than \$13 trillion. In closing, let me say how delighted I am to see David Rockefeller here. He has been a supporter

throughout Pete's professional career and an inspiration to us all. But, of course, Pete's chief inspiration is his extraordinary wife, Joan Ganz Cooney, a wonderful friend over the years to Andrea and me, and a true pioneer in her field, and Pete's partner in life. (Applause) Pete, for all of us here tonight, you have been a path finder, a truth teller, and above all else, a true friend. Pete, your achievements are nothing short of astonishing. You have made all of us better citizens. And as Ronald Reagan would say "you ain't see nothing yet." Thank you very much.

William Dudley: We have another former chair of the Federal Reserve System and a friend of Pete's who will speak next, Paul Volcker. Just last year Pete presented Paul with the club's Leadership Award which was made possible by a gift from Pete. Paul, if you could come up please.

Paul Volcker: Thank you Bill. Ladies and gentlemen, I must say I came here with a certain sense of anticipation tonight. How often can I be on a program where I am the youngest person? Well, I'm in that position tonight at least until Roger Ferguson somehow got added here? How old are you, Roger? You got filled in here. You know I added up, if you add up the ages of Alan and Pete and myself, it's 264 years. (Applause) If we added David Rockefeller, it would be 364 years. So you're being exposed to quite a lot of experience tonight for one reason or another. Now I suspect, I can't prove it, but I suspect that I have known Pete Peterson as long, and probably longer than anyone else in this room. And I'll tell you why. I was, I was inclined to say bright, young...but young under-secretary of the Treasury in 1970 and 1971. The dollar was

in some trouble at that time. We had fixed exchange rates. The gold supply was running down. We were wondering what to do. And then all of a sudden some bright whiz kid from Chicago gets appointed as assistant to the president. He had a remarkable business career in his 30s. He came down; he looked around the problems of the world and said we've got a deficit. We've got a big trade deficit. We've got a big current account deficit. We better do something about it. And he couldn't have been more correct. And I thought it was fine that he reminded President Nixon and the others about the size of the deficit, but I said, Pete, we're trying to hold things together. There's a little speculative fever out there in the market. We don't want to tell them about all these big deficits until we're ready. So we had a certain normal kind of dialogue between White House assistants and treasury officials, cabinet officials. But Pete was right. He understood it was a big problem and then by, six months after he got there, a day forever engraved in my memory, August 15, 1971, we went off gold. We devalued. International monetary system was a bit upset. By some standards, it remained a bit upset to this day. But Pete was right about the deficit. And what you all know and it's been clear from the comments that were made earlier, when Pete Peterson sees a problem, he has a sense of mission, an unstoppable sense of mission. The mission won't be kept quiet. From my seat it was a bit of worry when he first came into the Treasury, but for the United States his sense of mission, his sense of mission particularly about deficits, has been something to behold. And he spent a little bit of time in the Department of Commerce, then went off and became an investment banker, a successful investment banker for some years, but he never for one moment in that time has lost interest in our fiscal and economic problems. Way back in the early 1980s he was one of the

founders of an institution that has become of very considerable importance nationally and internationally, the International Institute of Economics, which he supported from its start, continues to support it, and it is rightfully now the Peterson International Institute of Economics. And it's got a very wide range of activities in economic analysis, internationally, domestically as well. But the heart of the matter in Pete's mind has remained a preoccupation with deficits – past deficits, present deficits, future deficits. They're all on his mind. They're all threatening to the economy and to our place in the world. What a stack of innovations this man has made in that area which has been touched upon already. The Concord Coalition, 15 years ago, Pete, maybe more than that, your Retirement Commission on entitlements and tax reform. Most of all on his own hook a steady stream of articles, essays, books on the problems and the threat of the deficits and Social Security, Medicare, the budget generally, that face this nation. None of that, I have to tell you, makes for very easy reading. It hasn't always reached the top of the bestseller list, but it has been consistent, important, and a major part of developing appropriate policies over time. The fact is, Pete's been right, quite right. He's shown the energy, the thinking, clarity, and force of his speaking and writing for dealing with financial threats have never been out of season, never been out of season for him. Unfortunately never been out of season for the country. Long years of chairing the Council on Foreign Relations, chairing the Federal Reserve Bank of New York, I might add, have always reflected the fact that he has had a mission about deficits all right, but a much wider interest in our economic and political problems, and a leader in not just this city, but in this country. I must confess this event tonight is a little bit symbolic. Here we are, the three of us, been in and out of government, been in and out of financial office,

presumably we've been in important positions for most of our careers, but I'm not aware that anyone actually puts the notion of a sell by date on our collective backs. The issues that have consumed us simply haven't gone away. And by creating the Peter G. Peterson Foundation, Pete has done his best, and his best is pretty damn good, done his best to make sure that these issues are not forgotten, however old we get and whatever happens in the future. I just quote to you the mission of that foundation – public awareness on fiscal sustainability issues related to the national debt, federal deficits, entitlement programs, and tax policies will remain on the agenda. That's been his mission. The man hasn't stopped. He doesn't give up. He's one Wall Streeter consumed with the public interest. His instincts have been right. The New York Economic Club has been around for a long time. But what could be more appropriate than this club, more than 100 years old, gives its Special Achievement Award to a great New Yorker, a great American whose legacy is going to go on for many, many years. I'm delighted to be here to help pay respects to my old friend, a man who is a great, not only a great personal friend, but a great friend of this country. Thank you.

William Dudley: Well, as a central banker, I never thought I'd be up here on stage with two such distinguished former chairs of the Federal Reserve. We aspire to follow humbly in your footsteps, so thank you, both Alan and Paul. Next we're going to have two members of the club's Prize Committee. Our former chair Roger Ferguson and Henry Kaufman will present the Special Achievement Award to Pete. And Pete, if you would join us up on the podium as well.

Roger Ferguson: Ladies and gentlemen, Pete Peterson. As former chair of the Economic Club

and member of the club's Prize Committee, and after the two prior speakers I must say as the former vice-chairman of the Fed, it gives me great pleasure to present this Special Achievement Award to you, Peter G. Peterson. It was the committee's unanimous decision to honor you in this way. Your contributions to our club, to New York City, and as you've already heard to our nation as a whole, have been nothing short of remarkable. Pete is the founder and chairman of the nonpartisan Peter G. Peterson Foundation, as you just heard from Paul Volcker, which works to increase public awareness and accelerate action on key fiscal challenges threatening America's future. Pete has held a range of important leadership roles throughout his public and private sector careers – Co-founder of the Blackstone Group, chairman and CEO of Lehman Brothers, chairman of the Federal Reserve Bank of New York, where I, like Alan, came to trust and rely on his judgment, chairman of the Council on Foreign Relations, Secretary of Commerce in the Nixon Administration, chairman and CEO of Bell and Howell in his early days. And perhaps his most distinguished achievement, chairman of our own Economic Club of New York. You also have heard that he founded and served as chairman of the Peterson Institute for International Economics, among many other positions in the public and private sectors. However, when the Prize Committee looked to discover whether or not we wanted to give this award to Pete we turned to our own mission and discovered that Pete really embodies the mission. So we are a major forum for discussion of a wide range of public issues of interest. To business people, Peter G. Peterson embodies that. Most importantly we thought about the various people who have spoken before this club and it turns out that Peter G. Peterson touches many of those elements. Economist - check. Banker - check. Corporate executive - check.

Ambassador at large in many ways, I'd say that's true. And importantly a social scientist. So it is with great honor, great humility, and a great pleasure on behalf of the committee that I present to Peter G. Peterson this Special Achievement Award. (Applause)

Peter G. Peterson: Thank you all so much. I read a comment in the last week or so that referred to overestimated last chance. And I read it and it struck me as appropriate but I don't know why. But after you have read some of these comments and listened to these great friends of yours overstate the truth so totally, but favorably, you begin to feel a bit like a fraud. So one thing that I think would be good is for me to make a confession that might put a few of these excessive comments in perspective. The confession is the following. I have never had a course in economics. (Applause) Now if I were fair to Paul and Alan, I'd give them a chance to reconsider their comments. But my main purpose in being here for this part of the program is to say something about one of my very best friends and truly a great American. I have known David Rockefeller for close to 50 years. I have never known anyone that is as humble, as decent, as honest as David Rockefeller. Let me tell you a little incident that somehow symbolizes these qualities. When I was chairman of the Council on Foreign Relations and David was my predecessor, we started a tradition of taking a group to one country or another around the world. I think without exception, in every one of the 25 countries that we visited the reason we got to meet the head of state was very obvious. It was David Rockefeller. And I was struck when we got home because it was a standard comment of David's and he was meaning it. It went something like the following. "Pete, thank you so much for taking me on your trip." And I kept

saying each year for 25 years, “David, you are this trip.” But he couldn’t get it out. He was so humble and so decent. So David, I would like us to recognize you, not as the oldest member of this organization, but as the most decent, generous, able, intelligent, wise member of this club, David Rockefeller. (Applause)

William Dudley: Pete, that was very well said. And now I’d like to introduce Glenn Hubbard, also a former chair of the Economic Club and Dean of the Columbia University Business School. Glenn will have a conversation with Pete.

Glenn Hubbard: Thanks Bill. Pete, I have an incredibly pleasant chair here with you, but I must say it is difficult and daunting to talk with somebody who has been a leading advertising executive, a CEO, a financier, a cabinet member, a negotiator for our nation, a philanthropist, but I’m going to try. And on economics, by the way, economics is far too important to leave to economists. So you need not apologize there. Your contributions are many. I wanted to go back and then go forward. And by back I mean to the Nixon years. This is the 40th year after which President Nixon resigned, and I know that you played very many roles and key roles in the administration and I just wanted to ask you apropos of your economics comment, how did you come to get the job of special assistant to the president for international economic policy?

Peter G. Peterson: You didn’t say it, but you also mean, who had never had a course in economics....

Glenn Hubbard: No, I already told you. Economics is too important to be left to economists.

Peter G. Peterson: I was a part-time instructor at the University of Chicago Graduate School in the evening. George Shultz was a friend of mine, a good friend, and he at one point was dean of the school. And I got a call from George one day saying the president wants to see you for a one-on-one on something important. Well, how do you ever say no to something like that? So I met the president and he was very honest in saying he was somewhat concerned about the decision-making in the field of international economics. And he was so concerned that he formed a private commission of important citizens to look at the situation and make recommendations. And they had made recommendations that included setting up a new council that would be chaired by the president but would have an executive director, but the members would be all of the major cabinet officers. Not the Secretary of Commerce. But we proceeded; I mean that's what he said they were for. He wanted to know about my company. So I went through quite a description of Bell and Howell. And we at the end of this long discussion which included what was our competition, how were we doing in Japan, he had a lot of very specific questions. As far as his question about Japan, we had been subject to intense competition. And it got so intense that some of our people were, if you'll forgive the pun, disoriented. I like puns. Apparently you don't. So we went on in our discussion and finally he said, "Do you have any questions to ask me?" And I said, "as a matter of fact, I do." I said, "You have a National Security Council headed by Henry Kissinger. Why don't you use that existing body? And you

have a great economist, Fred Bergsten,” whom I later put in charge of the Peterson Institute and he did a fabulous job, “but why don’t you use that structure?” At that point, the tone of the meeting got, I call it starky maybe, or some such word like that. And he said, “let me tell you something” in a rather gruff voice, “Kissinger doesn’t know a damn thing about economics, and what’s worse, he doesn’t know what he doesn’t know.” (Laughter) And my reaction was this is a pretty tough place here.

Glenn Hubbard: Well, let me ask you about an aspect of that tough place because sometimes presidents even talk like that about economists. Wage and price controls, how did a Republican administration impose wage and price controls? What were the dynamics? What were the discussions?

Peter G. Peterson: Well, I was in a state of shock. And why was I in a state of shock? Not only that this was a gross violation of market economics, but Richard Nixon himself had said to me, “Pete, I would recommend that you don’t include controls as part of your recommendations because I have a clear philosophy about controls, and that is that our economy is so complicated that often the results are worse after the controls than they were before.” So when I get news, and I got it directly because that famous meeting was held at Camp David and there were only six of us there, and I should have known at the beginning that something was up. And in the meeting the president brought John Connally in with the most supportive introduction you’ve ever heard in your life which made it clear that they had been talking and they were presenting a

joint recommendation. Now John Connally was a big government Democrat as you know so the honest answer to your question, it's not an economic question, it was a political question. So what was he doing with John Connally is the next question. And what he was doing with John Connally became obvious. But first, I'm not a psychologist, I'm not an economist, but sometimes people who are ambivalent about themselves start living their life through other people. And I got the overwhelming impression that Nixon was living his life partly through John Connally. Namely, big, charismatic, bring the house under control, all qualities Richard Nixon did not have. I also learned from a very good source that John Connally was the one person that had never been criticized by Richard Nixon and that was verified in the tapes. So this was a long going affair apparently that was taking place, if I can use that word. And we, at least I was grateful that he got stuck with the milk scandal where as you know he was accused of being bribed by the milk producers and that of course killed any chances he had. But his plan had been to fill the vice presidency with the empty seat that existed and that this was part of a long-term plan to make him president. So that's a long way from a Conservative Republican.

Glenn Hubbard: That would keep me up at night, yes. Well, let me ask you about another different subject from those days which were your negotiations with the Russians on a whole series of matters. Can you tell us a little bit about how you approached it?

Peter G. Peterson: The first thing I did was, because it turned out that when I got there I could verify we knew almost nothing about the Soviet economy, and I kept getting little tidbits that

made me believe the Soviet economy was much weaker than we had thought. It was not good politics to call the Soviet economy weak so this was a secret study that's never been published. But it was an exhaustive study, and it did verify that the economy was very weak indeed. Now the strategy that I worked out with Henry Kissinger first was if the Soviet economy was this weak, an economic deal with the United States was something they might find very attractive. And therefore, we started planning around using economics to achieve foreign policy objectives which was a first in the government. We did just that, but it was a tough negotiation because among the things we were including were paying back their Lend-Lease bill. And I used to spend a fair amount of time with Brezhnev and I visited him one summer and it was quite an experience. It was a huge summer house and he proclaimed at the outset that it was the first indoor/outdoor pool that was automatic. And I said, a Soviet, Communist, is bragging about having the only indoor/outdoor swimming pool in the world. And that was true, and he even showed how it worked, and you'd see these huge members going back and forth out of the sky. And then we would get serious and the issue they were serious about was Lend-Lease. And he, I have a picture of him shaking his hand at me. He said, "Mr. Secretary, I want you to promise you're going to take this message to your president. The Russians lost 24 million men and women in that war. We paid for that war with our blood. And you only lost 400,000. How can you expect us to pay in blood and then pay in money particularly since paying interest is not exactly what we enjoy doing in the Communist government." So we confronted that issue with the Russians. Then the president asked me to get some information for him. You recall, I assume, that we kept running into these wheat shortages and they'd have to import a lot of

wheat. But I told the president that they had invested a lot of money in wheat production, but I didn't fully know why they produced so little. So he said please find out, I'm fascinated. So Brezhnev gives a dinner for me at which one of the guests was the agricultural minister, just dumb luck you know, and I was, I couldn't wait to get at him. But as I learned to negotiate with the Soviets, you have to wait until about the thirteenth vodka, and that is when they began opening up. So I explained I was puzzled by how there could be a huge field with a lot of farm equipment and nothing going on. He said, "I will explain to you. I just got back from ___ and talked with a farmer there." He said, "in our country," he said, "the farmer owns nothing. He doesn't own the land. He doesn't own the equipment. He owns nothing. And therefore he doesn't care how much the production is because he's not getting any of it anyway." And I said, Jesus, what a simple kind of description of the Soviet economy. When I got back the first thing Richard wanted to know—Nixon—was what did you find out about wheat, you know, and so forth. So it turned out our strategy was correct that they so desperately wanted an agreement with the United States because of their weakness that they would, they would ultimately pay their Lend-Lease.

Glenn Hubbard: So you negotiated the Lend-Lease payments?

Peter G. Peterson: Yes, we finally did. And it was in my house on the second floor and I finally got the minister to understand that if they wanted the rest of the goodies, they had to solve Lend-Lease. Al Haig was then Chief of Staff. He said, "Call me the minute you know." So I called

him about 1 o'clock in the morning and said we got a deal. He said, "That's the best news we've had in a long time, I'll tell the president." Five minutes later he calls me back. He said, "I got some very bad news for you." I said, "about what?" He said, "I've talked to the president and he thinks it's wrong not to include the State Department." And I said, "Al, it was he who instructed me not to negotiate with them." But Al says, "Pete, you don't argue with the president. You just act."

Glenn Hubbard: So how did you work it out?

Peter G. Peterson: So I called Bill Rogers who ironically enough was Nixon's best friend in the cabinet and said, "Bill, I must see you right away, this is important." So I saw him first thing in the morning. And I adopted a stance that isn't natural for me, modesty, and making mistakes. So I said, Bill, "I have made the biggest mistake of my life. Why I insisted on finishing the negotiations on Lend-Lease, I will never know, but it was part of the package deal and we were so close, and I was so tired of this. I hope you can forgive me. But first I want to tell you what my recommendation is. Why don't we announce the deal at the State Department, and why don't you chair the presentation. And why don't you direct the questions that come from the audience. In short, why isn't this the Bill Rogers' State Department Agreement? And why don't you sign the agreement for the United States." Bill Rogers looked up and said, "It seems fine to me." I would have thought he did think it was fine for him. So we made the deal and I could call Al and say, "Al, don't do this to me again please."

Glenn Hubbard: That's great. I want to take you actually forward to the issue that you have been such a passionate and outspoken leader on, on the nation's debt. As you have written eloquently, and I think people in this room know...I think that we face an imminent debt crisis. We face a problem of growing entitlement problems. You have warned us of this for many years. Many economists have. And yet we haven't seen much public action. How did you come to this as a big issue and lend to it the support of your foundation?

Peter G. Peterson: I started out with a book called *Running on Empty*. And I've always been a frustrated academic so one of the reasons I relieve these frustrations is to write something every once in a while. And I started studying the demographics of the United States and I was stunned by the size of the Baby Boomers and how rapidly the top group was growing, the over 85-year old, I'm delighted to say, and how wrong most of the cliches were about the entitlement program, you know, that the money has been set aside and it's funded and it's my money and all this sort of thing. So I wrote the book *Running on Empty*. It turned out to be a bestseller. I don't know why, but it did. I suffered a lot of humiliation. You may remember Ted, President Kennedy's aide...

Glenn Hubbard: Ted Sorensen...

Peter G. Peterson: Ted Sorensen nailed me one day after *Running on Empty* by saying once you put it down, you will not be able to pick it up. (Laughter) But that's one of the prices that a

businessman, etc. pays for writing. It's resented often by the intellectuals.

Glenn Hubbard: Oh sure. But to conclude our conversation, what one thing do you think our leaders could do to really move the ball forward on addressing the entitlement problem? What is a concrete piece of action they could take?

Peter G. Peterson: Well, I think we've got a huge awareness problem.

Glenn Hubbard: In the public.

Peter G. Peterson: In the public, and the problem is totally unaddressed by the Congress, by the leadership, and it goes out about ten or fifteen years. But as you know the big problem is post-25 or 30 years. And it involves tough choices. We're going to have to increase revenues. And I hope, I have my own dreams about the kind of revenues. We're going to have to cut entitlements. We can't do it with spending cuts alone because I've had our research people check how much you'd have to cut. It's about 25 or 30 percent to stabilize debt. I've been around a long time. Trying to cut the budget by 30 percent is beyond my ability. To try to do it with revenues alone, you have a very similar equation, 30 to 40 percent, and imagine trying to sell that proposition. So I think we have to create awareness of the problem and this is going to strike you as a bit bizarre, but I think we have to include the young. It's their future that is being mortgaged. You know the old...the ultimate test of a moral society is the kind of world it leaves

to its children. We're leaving them huge debts, tremendous payroll taxes, great risks of market crises and all this sort of thing. And therefore, it's going to be a very tough proposition and you're going to need the support of groups that haven't been very positive. The elderly have the AARP, 37 million strong, who have spent hundreds and millions of dollars on ads that you saw over the last campaign. If you do anything to cut Social Security and Medicare, we will see you in November. So I think we need to get the young people involved. And there's a joke about the young that I wish we didn't have. You perhaps remember the joke in which the professor says to the class, Which is worse? Ignorance or Apathy? And some sleepy kid in the back says I don't know and I don't care.

Glenn Hubbard: Well, I think as a ____ to our youth's future, that's a great _____. One thing that is not running on empty is the many contributions, Pete, that you have made to business, to society, to public policy, and we're in your debt. Thank you.

Peter G. Peterson: Thank you.

William Dudley: Well, that was fun, especially for me. I want to thank Alan, Paul, Roger, Henry, and Glenn. And of course, congratulations Pete. I hope all of you now enjoy your dinner. Thank you.